

Economic and Revenue Update

Presented to
Economic Symposium

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**WASHINGTON STATE
ECONOMIC AND REVENUE FORECAST COUNCIL**

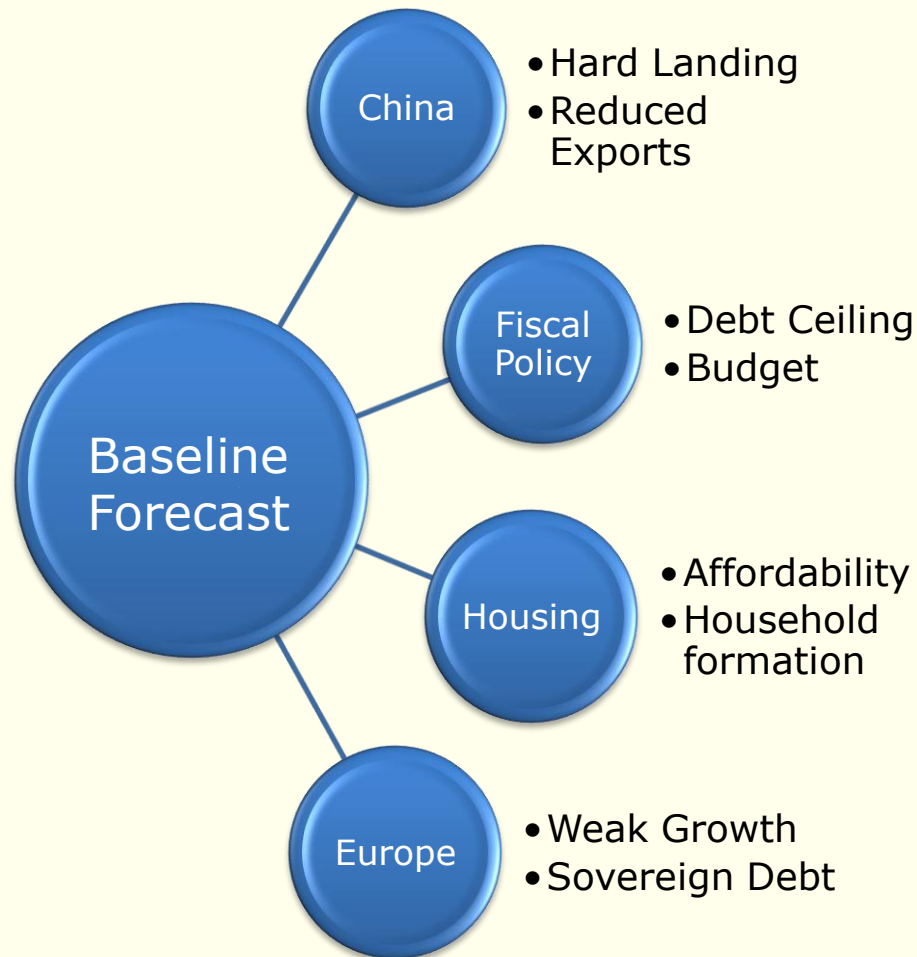


Summary

- The updated economic forecast is fairly similar to the September forecast, but with slightly slower growth in Washington housing construction
- Uncertainty in the baseline remains very high, mostly due to concerns about China, federal fiscal policy, housing affordability and Europe
- Washington employment has been slowly increasing in most sectors; aerospace and the federal government are exceptions
- The updated revenue forecast increases expected revenue by \$9 million in the 2011-13 biennium and by \$16 million in the 2013-15 biennium



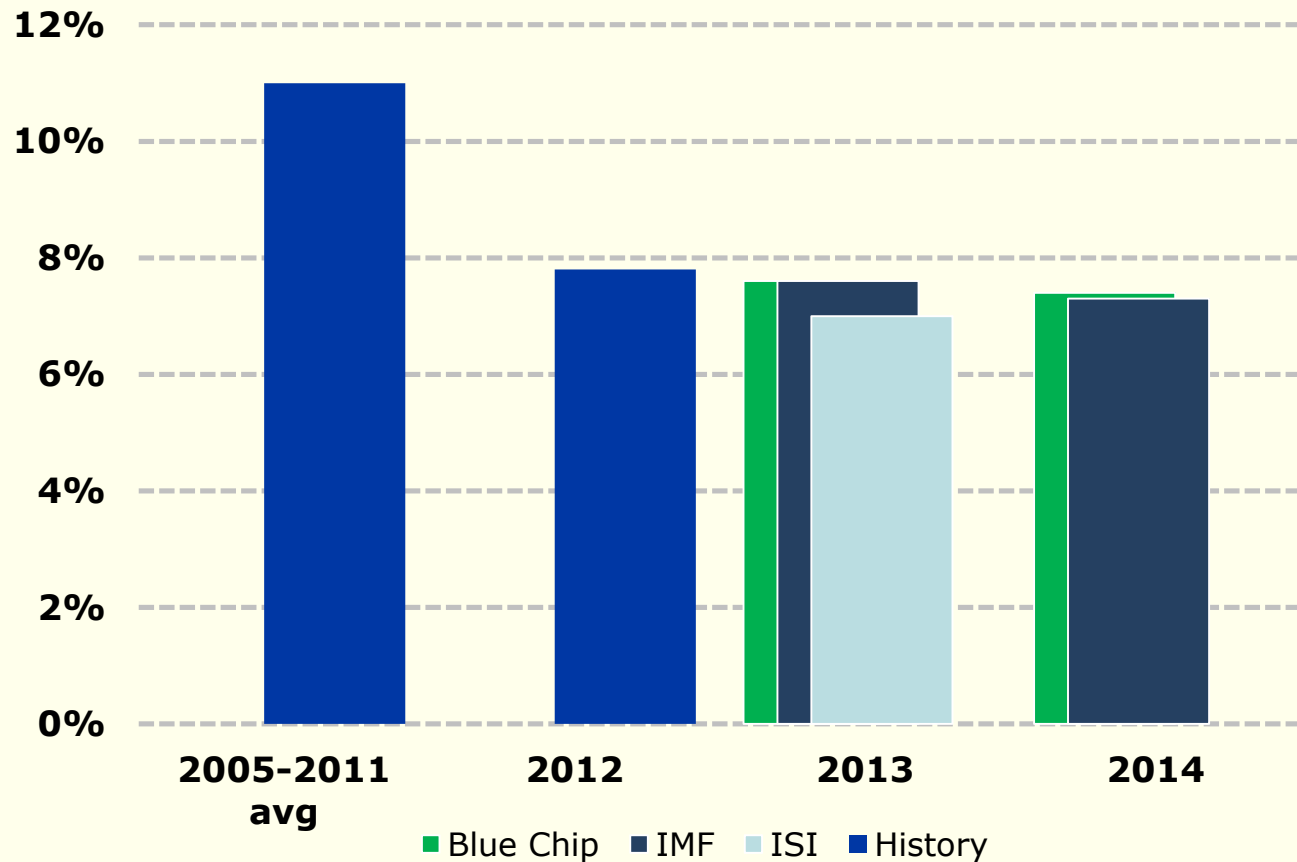
Four major risks to the forecast



Source: ERFc



China's 2014 GDP growth expected to be at or below 2013 rates



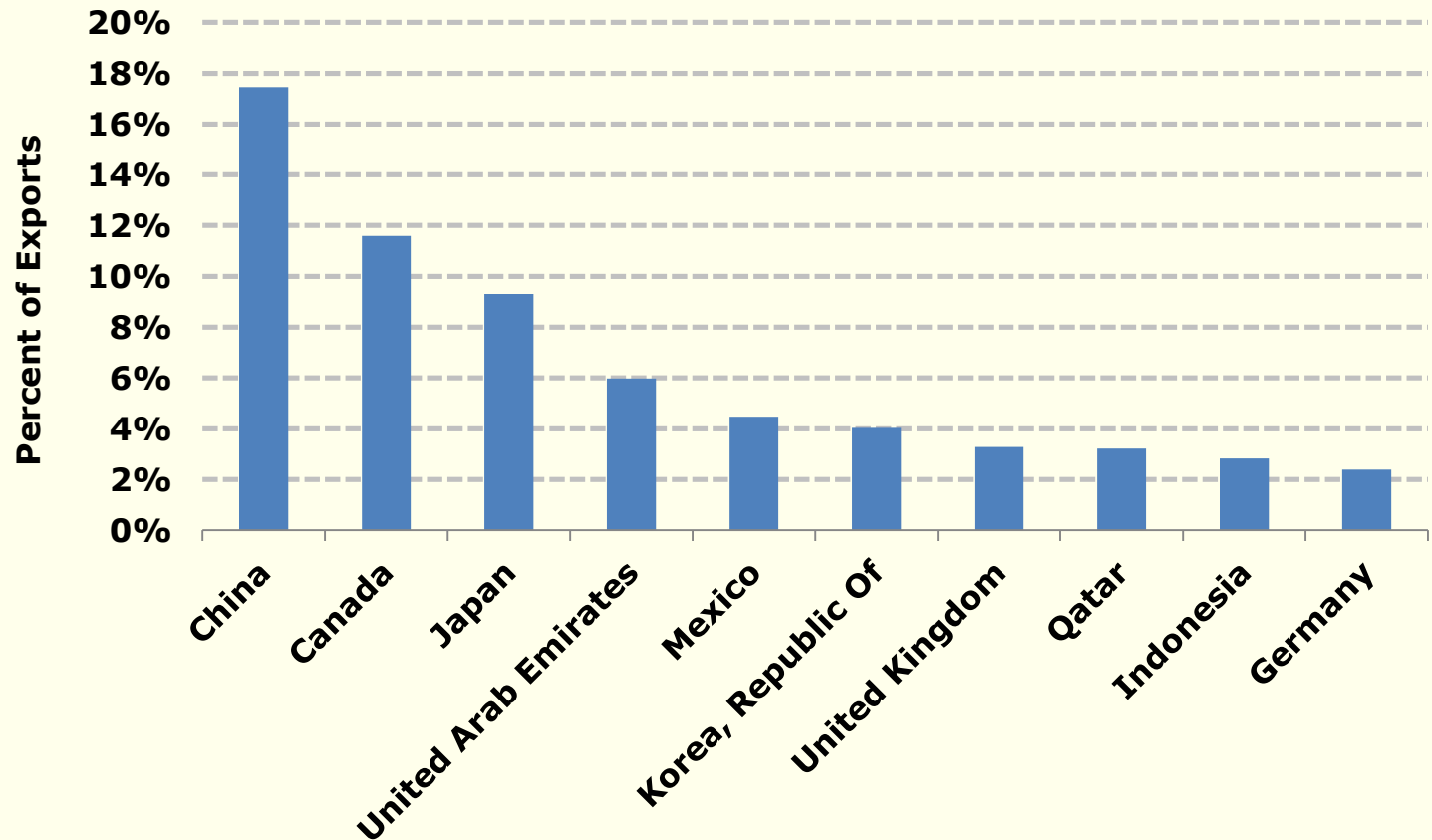
Source: Blue Chip, IMF, ISI; data and forecasts through October 2013

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China is Washington's largest export market

Top 10 export destinations, 2013 YTD



Source: WISER Trade, data through July 2013

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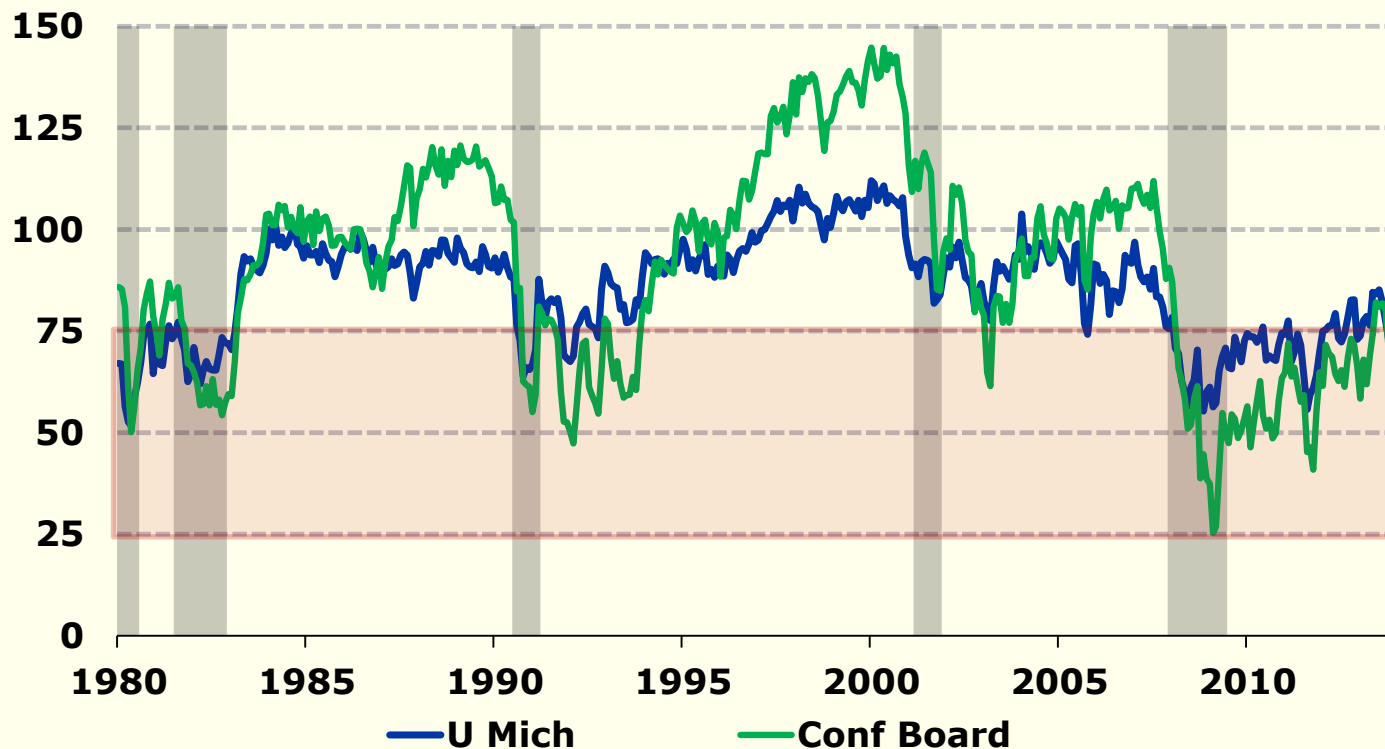


Consumer confidence weakened after the government shutdown

Index

Mich: 1966Q1 = 100, SA

Conf Board: 1985 = 100, SA

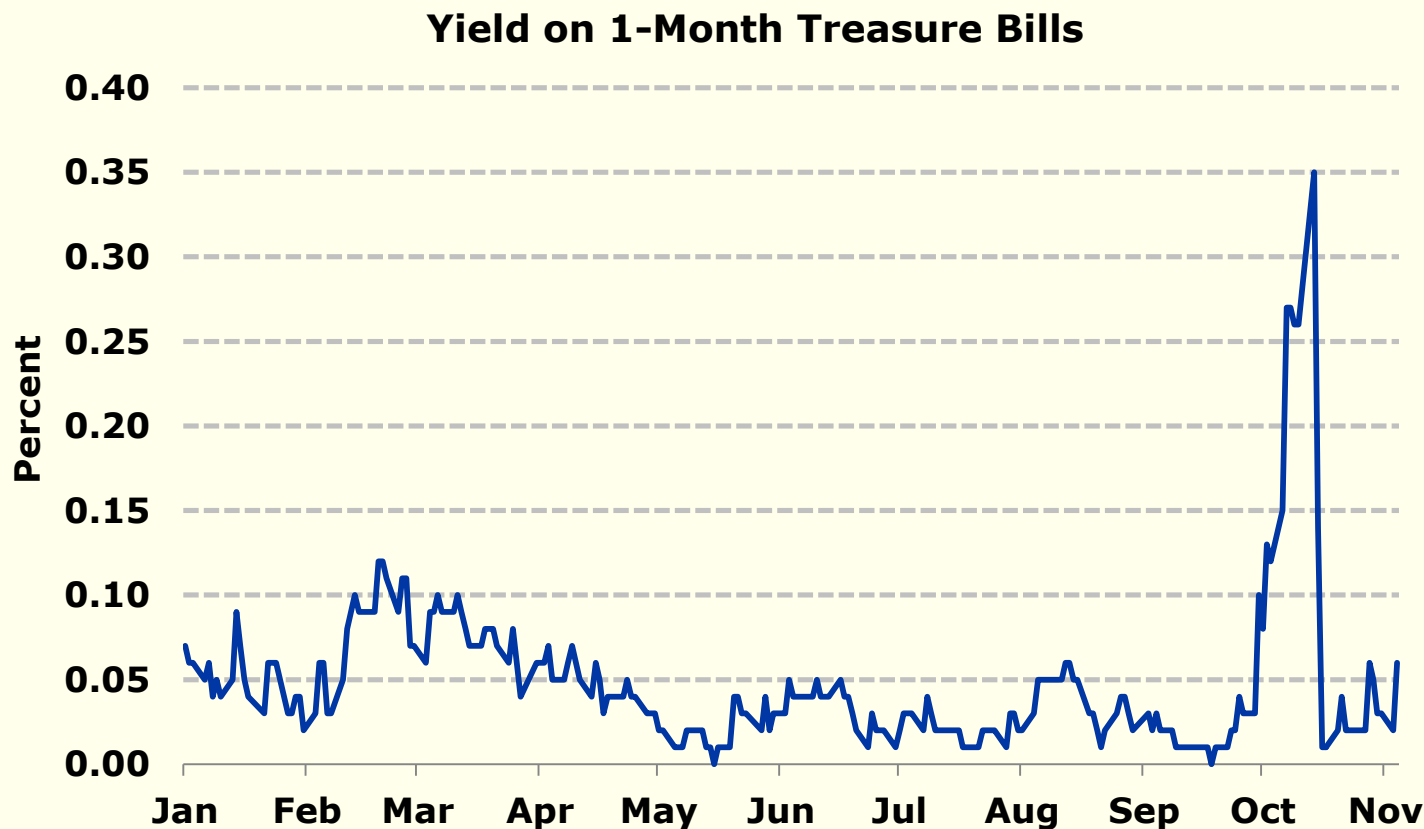


Source: University of Michigan; Conference Board, data through November 2013

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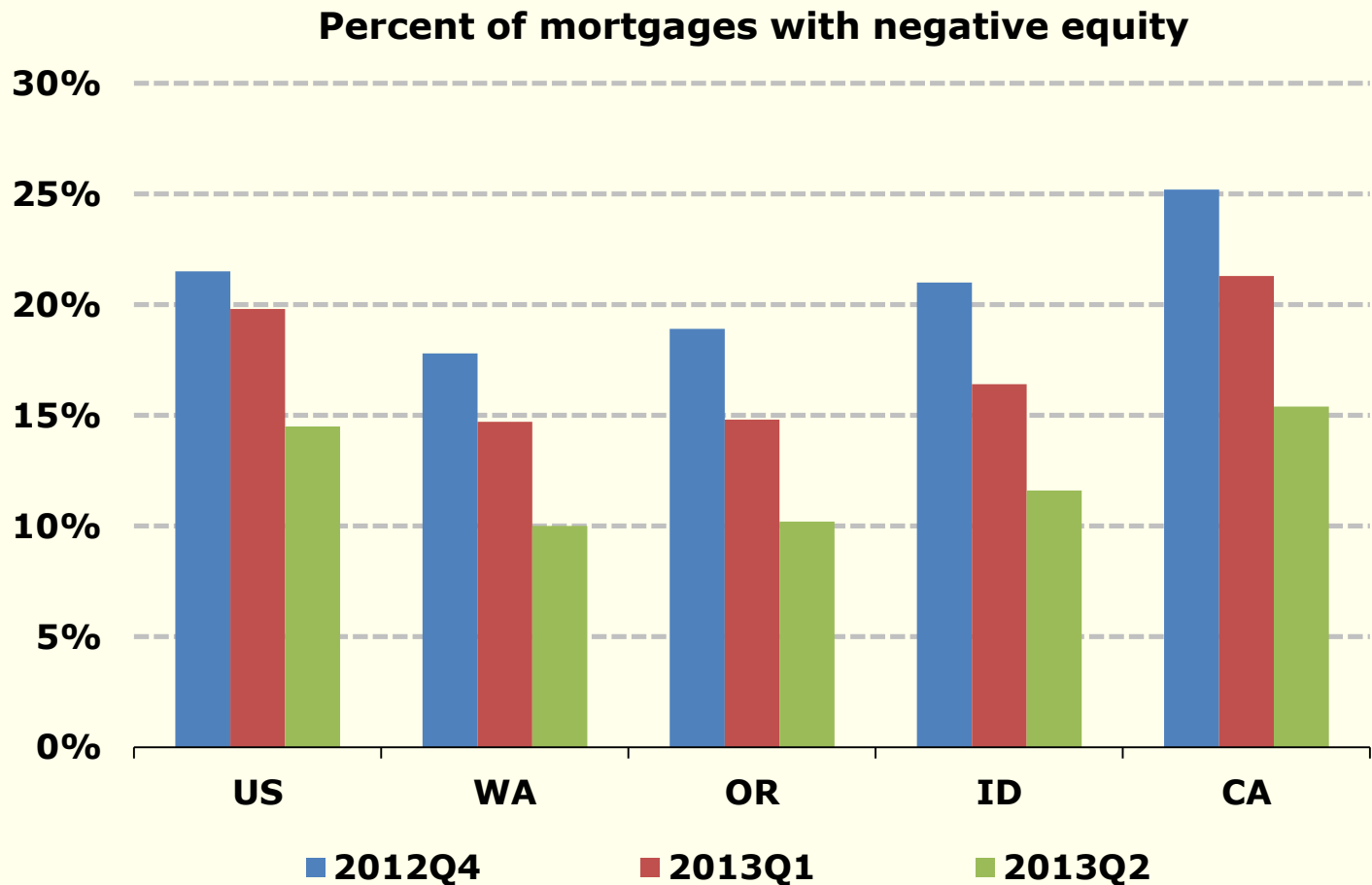
Debt ceiling debate spiked short-term interest rates



Source: U.S. Treasury; data through November 5, 2013



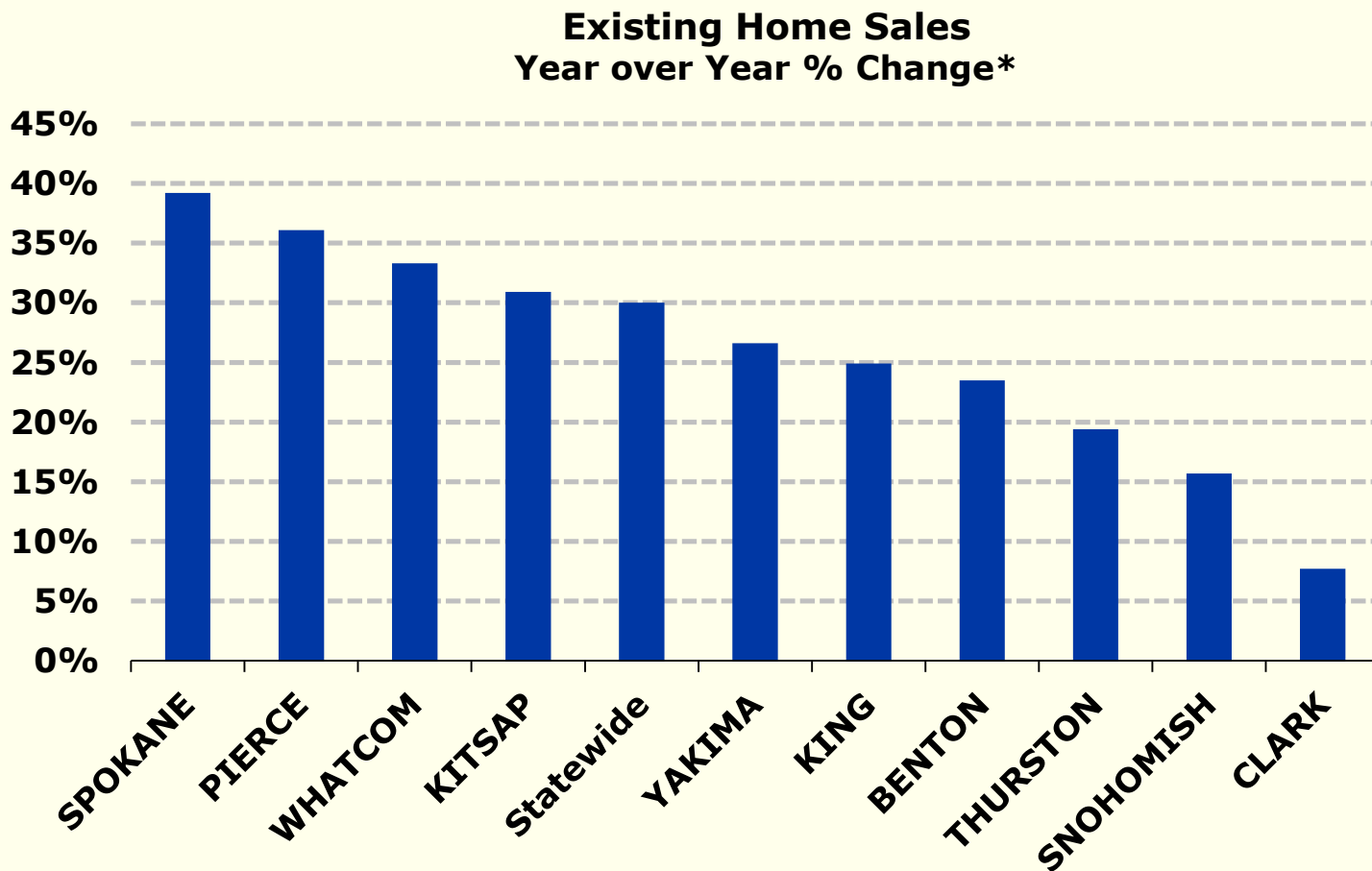
Rising home prices have reduced the number of underwater mortgages





Strong growth in existing home sales statewide

*Ten counties with highest existing home sales, 2013Q3

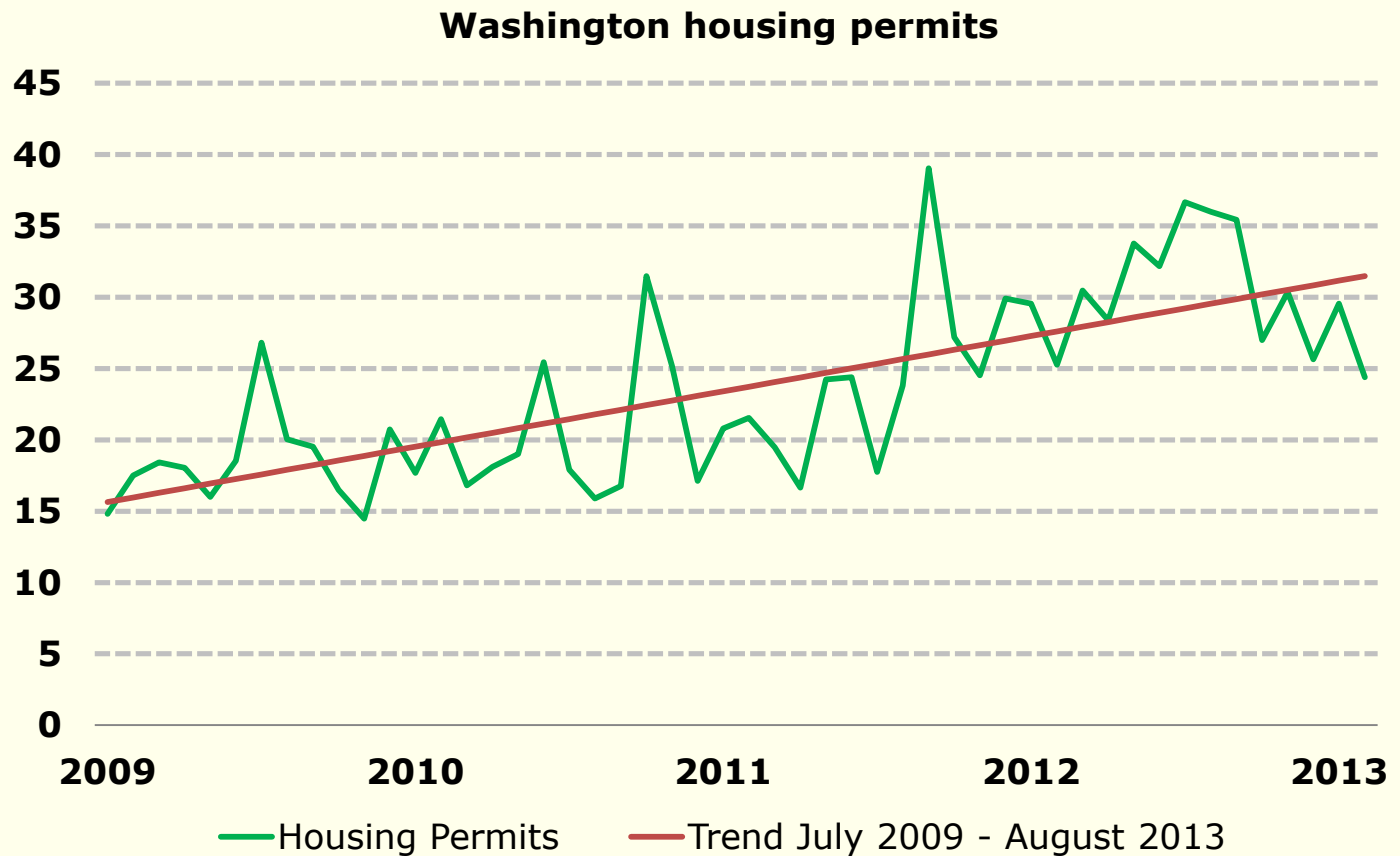


Source: WA Center for Real Estate Research, ERFC; 2013Q3 data

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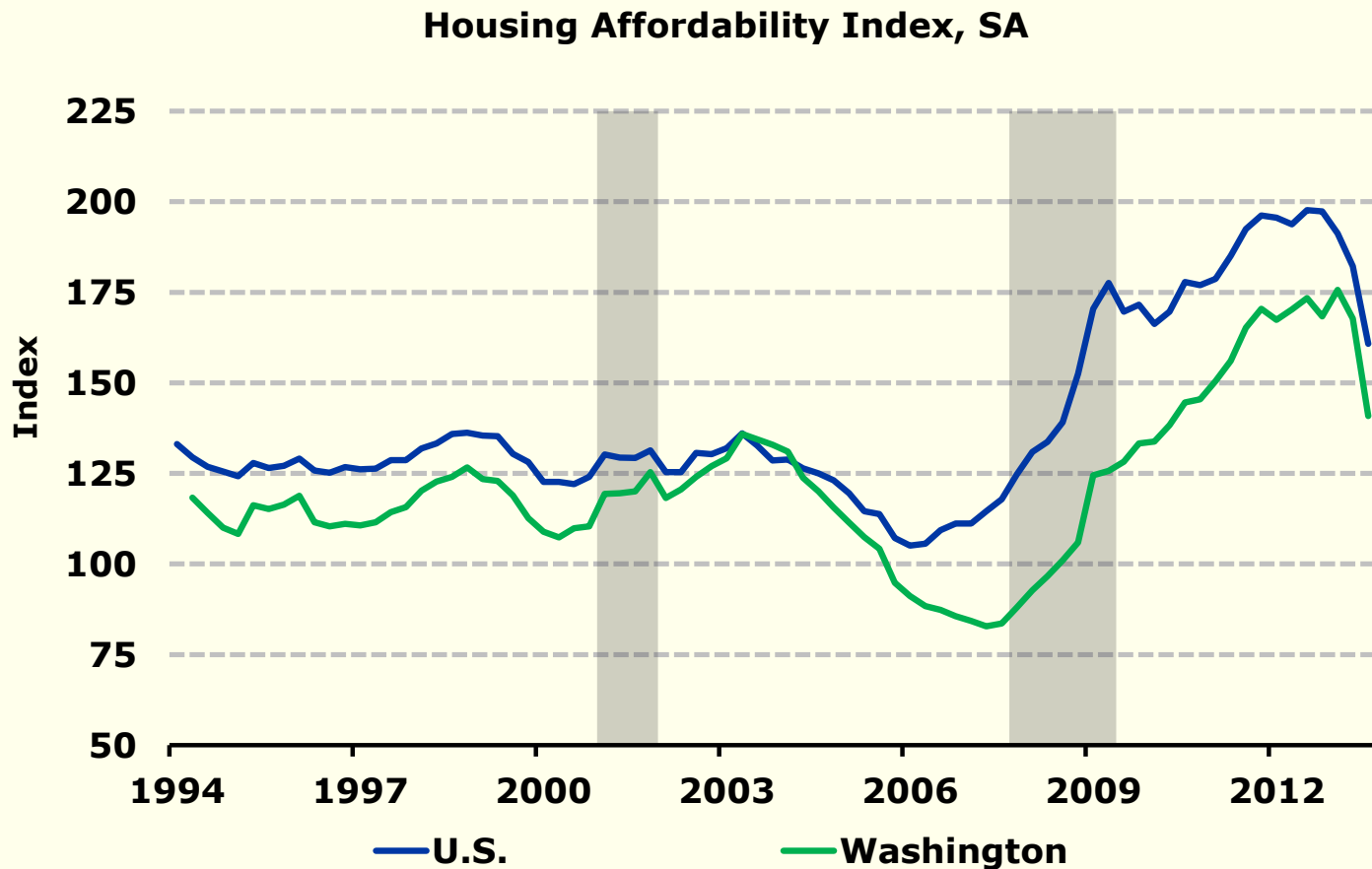


Housing permits below trend since April 2013





Rising mortgage rates and home prices have reduced affordability



Source: Global Insight, WA Center Real Estate Research, ERFC; data through 2013Q3

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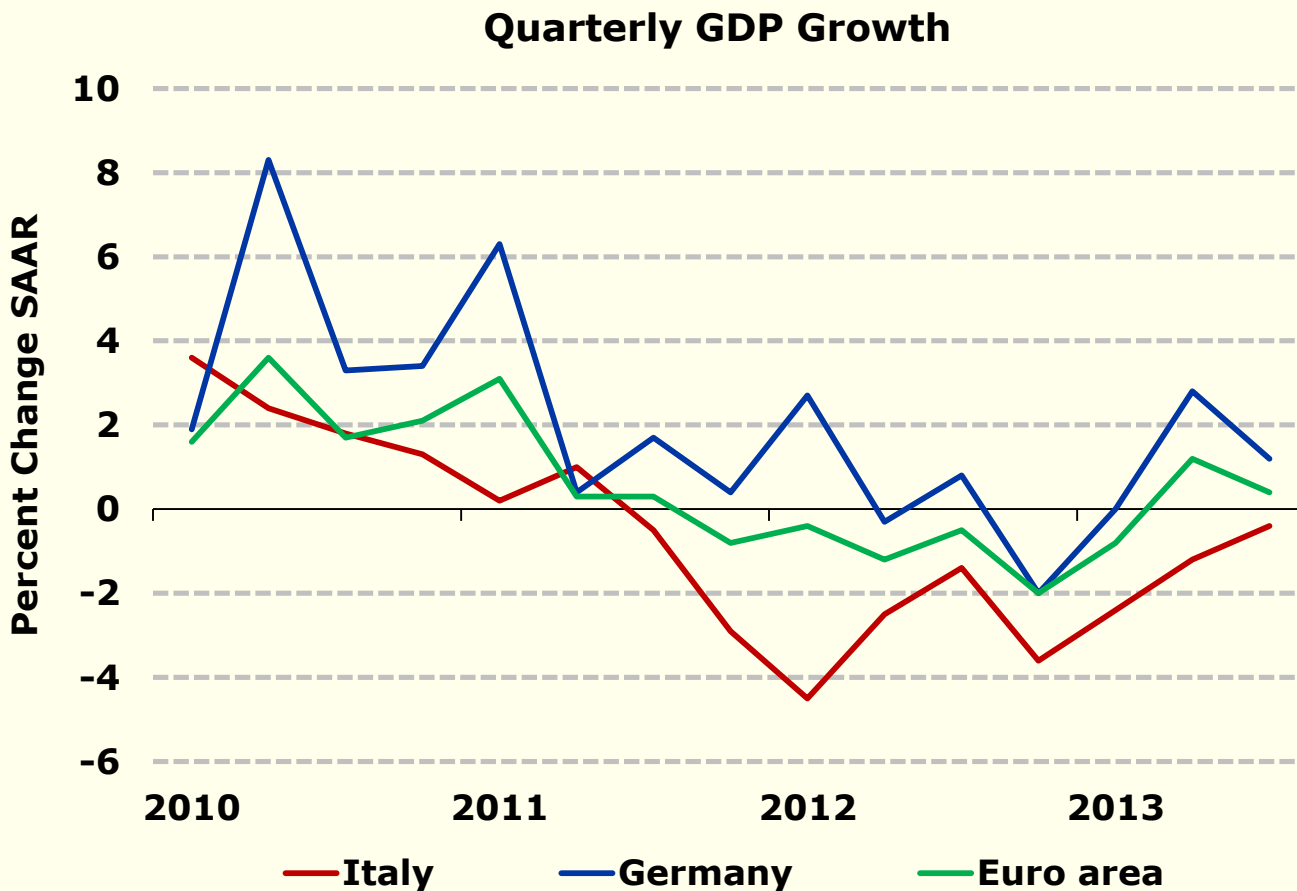


Euro area GDP has returned to positive growth

Eurozone
Forecast:

2013: -0.3%

2014: 1.0%



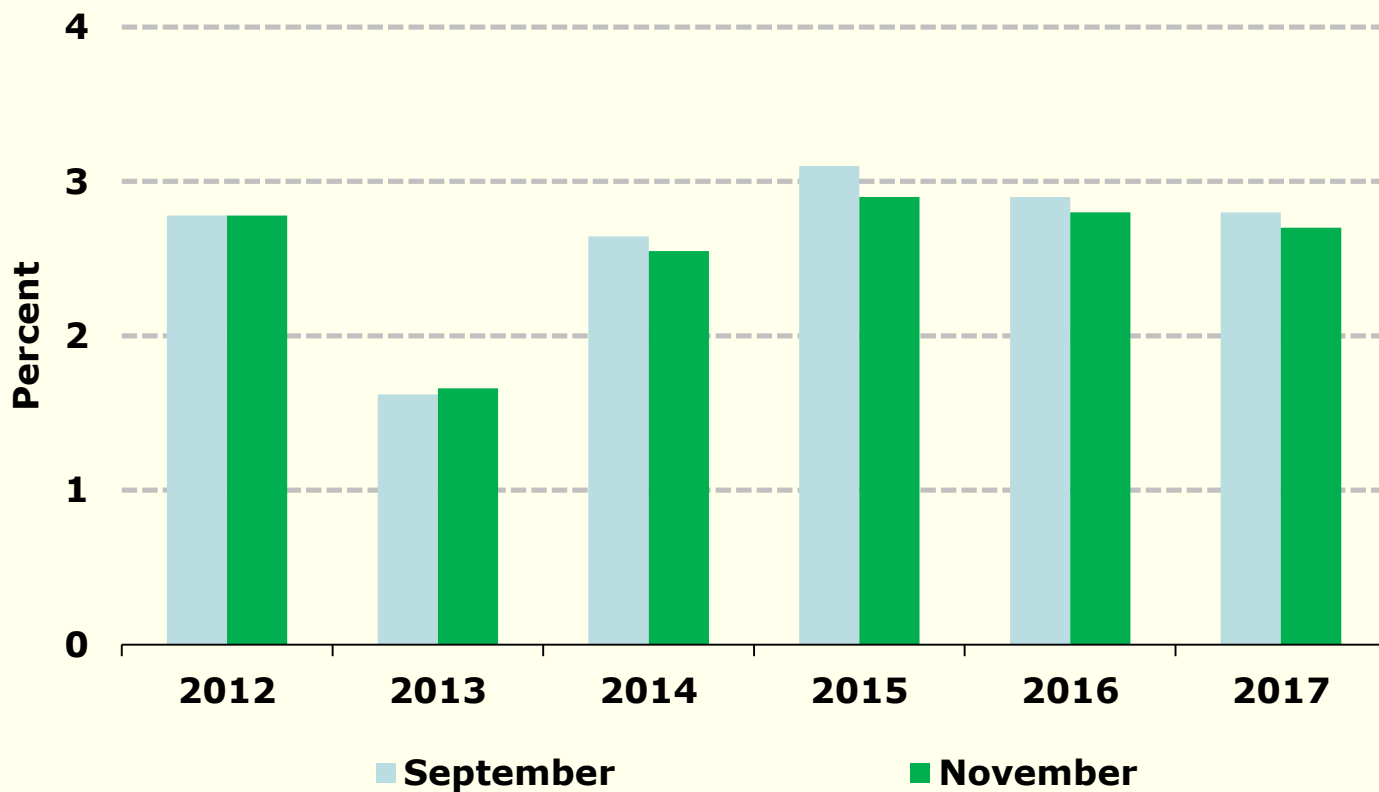
Source: Eurostat; data through 2013Q3

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U.S. GDP forecast slightly lower after 2013

Blue Chip Consensus Real GDP forecast

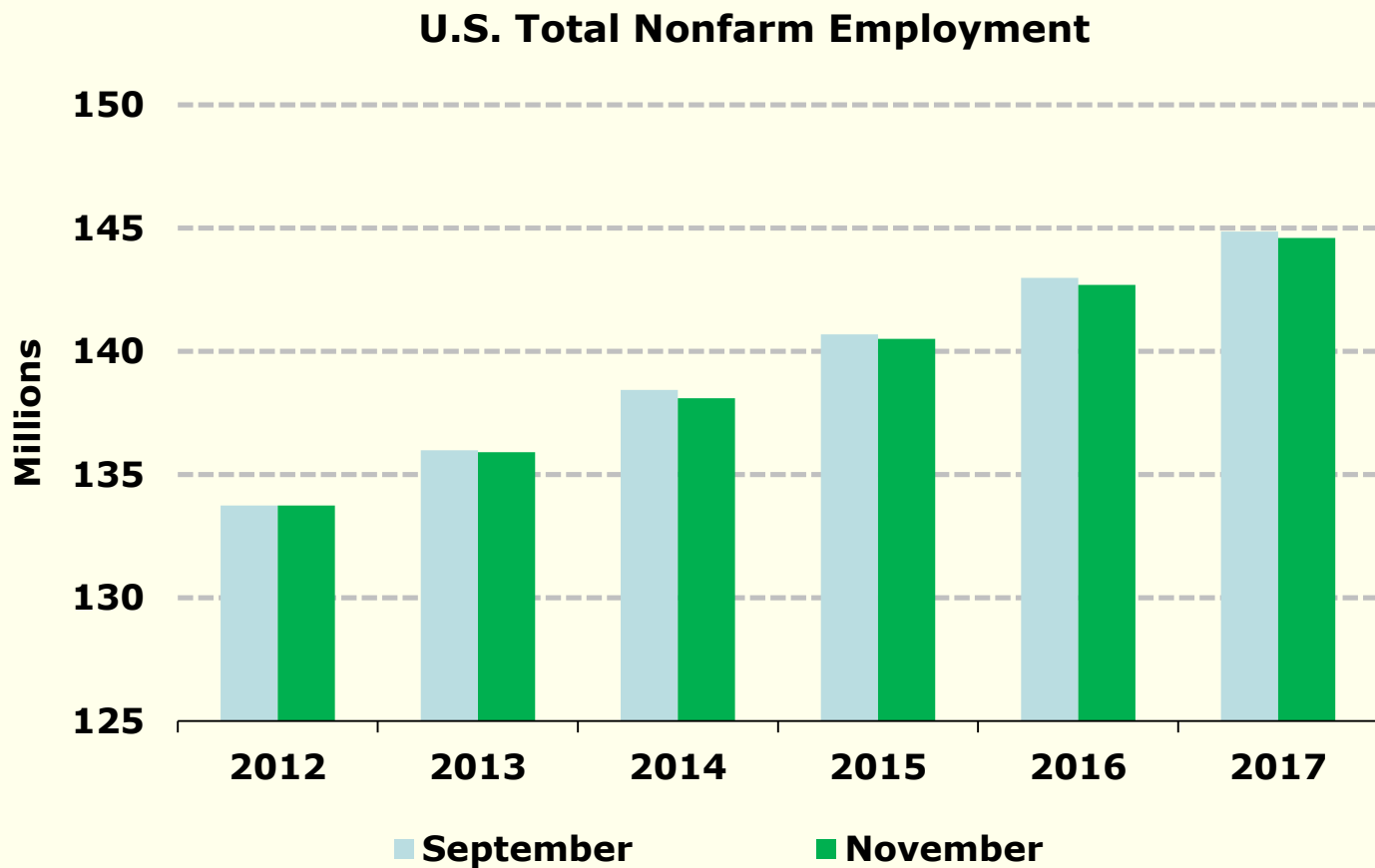


Source: BEA, Blue Chip Economic Indicators November 2013; historical data through 2012

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U.S employment forecast slightly lower

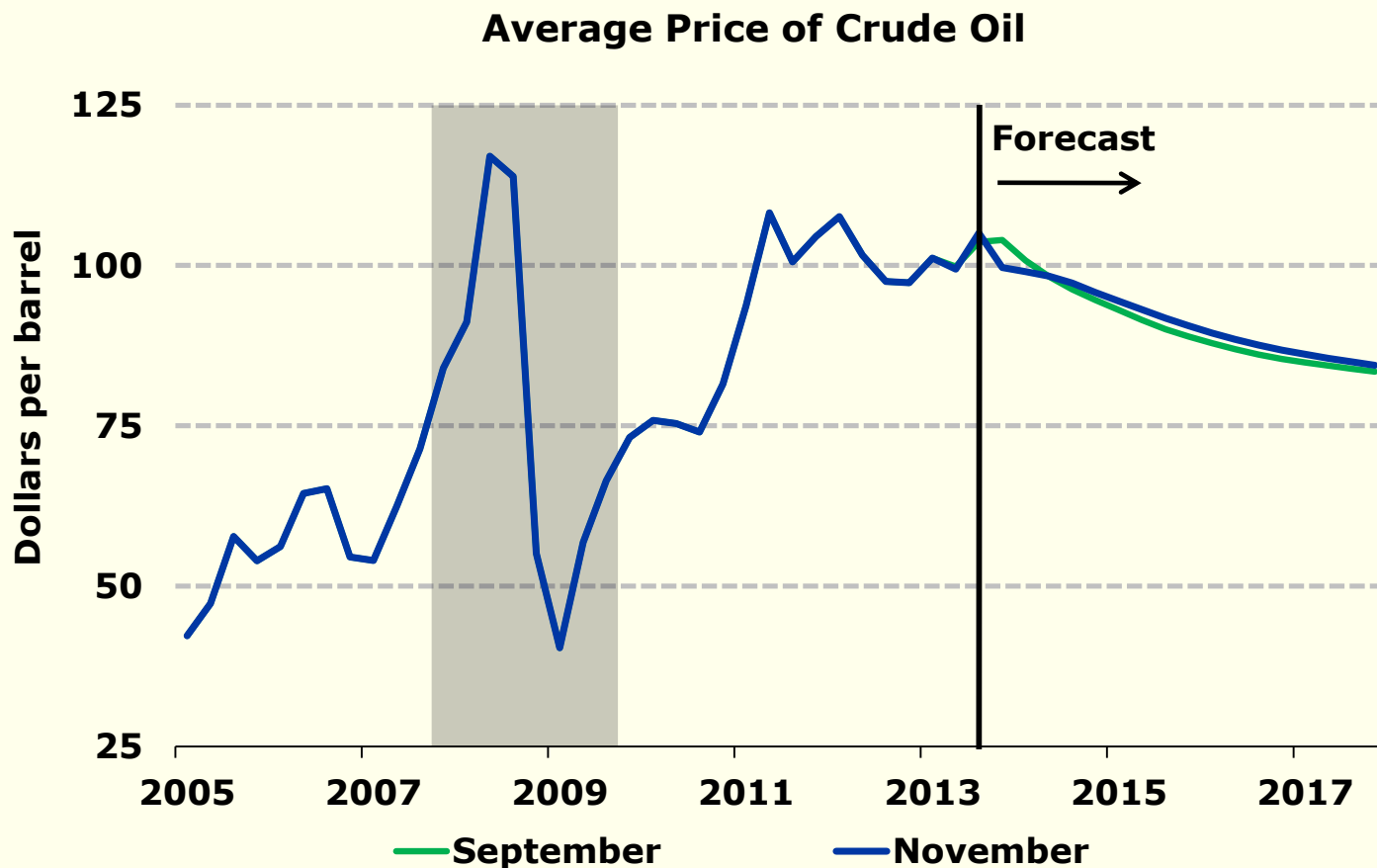


Source: BLS, ERFC November 2013 forecast; historical data through 2012

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Oil prices are expected to be slightly lower in the near term

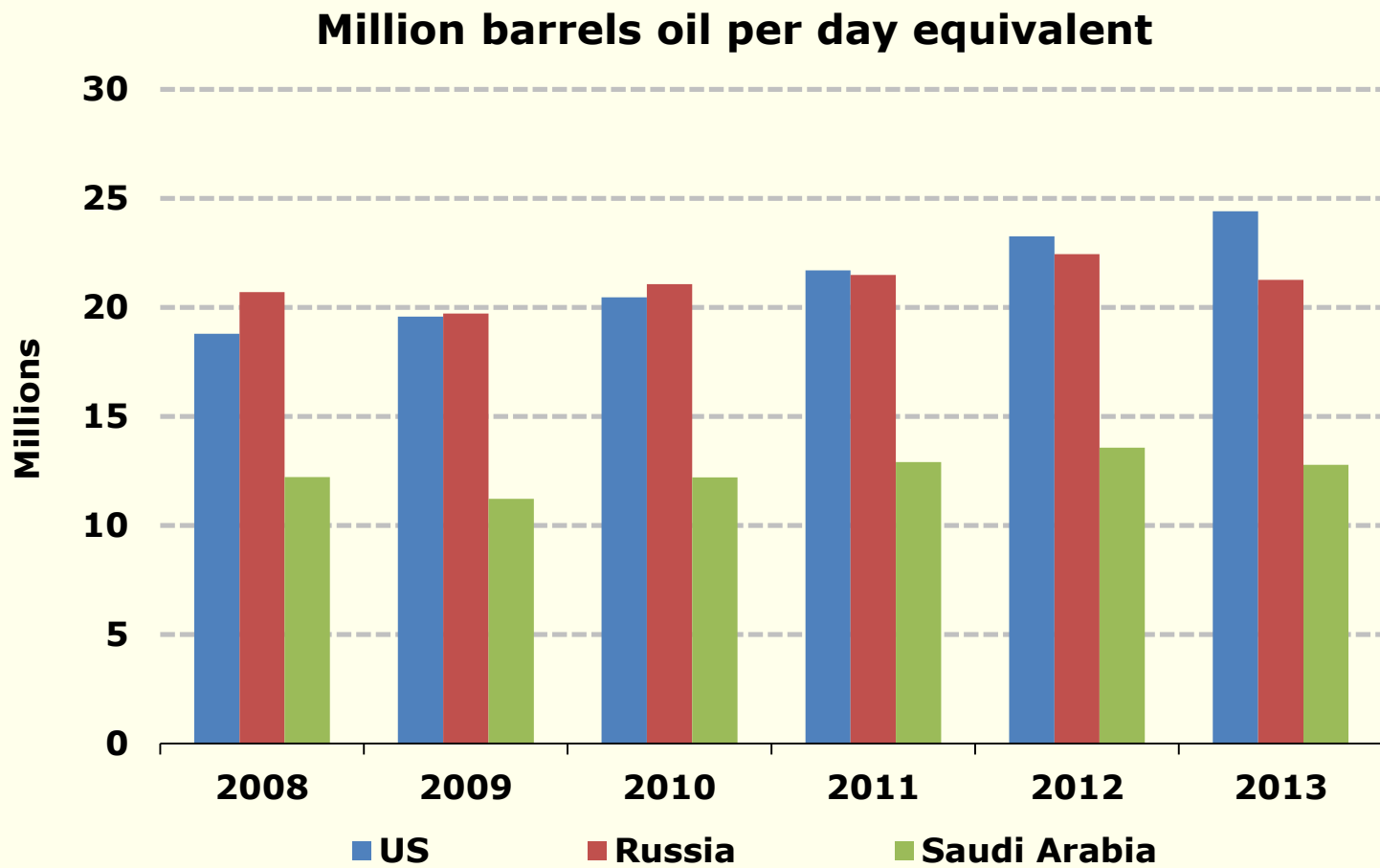


Source: DOE, ERFC November 2013 forecast; historical data through 2013Q3

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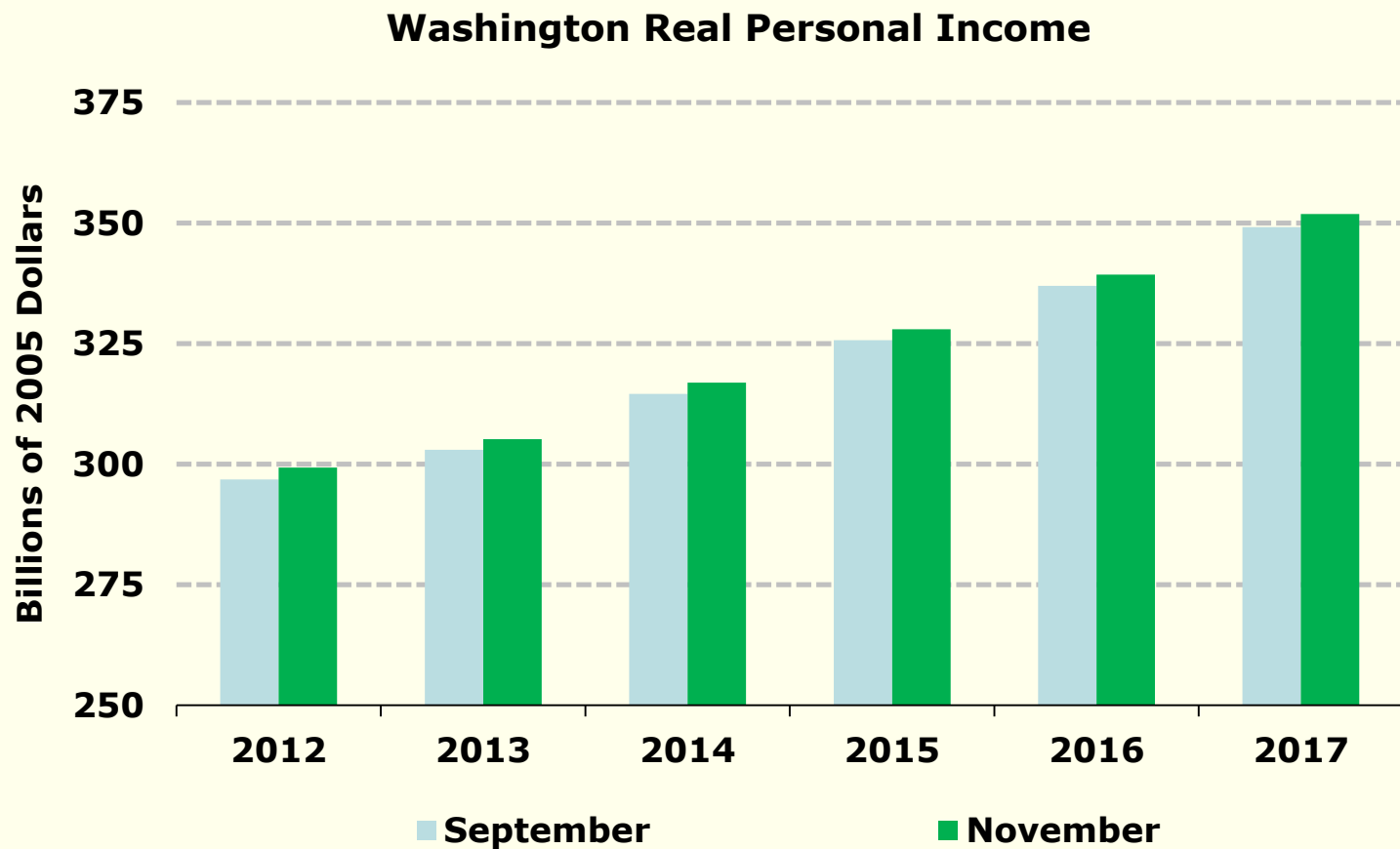
U.S. expected to be top petroleum and natural gas producer in 2013





Washington real personal income forecast is slightly higher...

Recent comprehensive data revisions added \$2.9 billion to 2012 state personal income

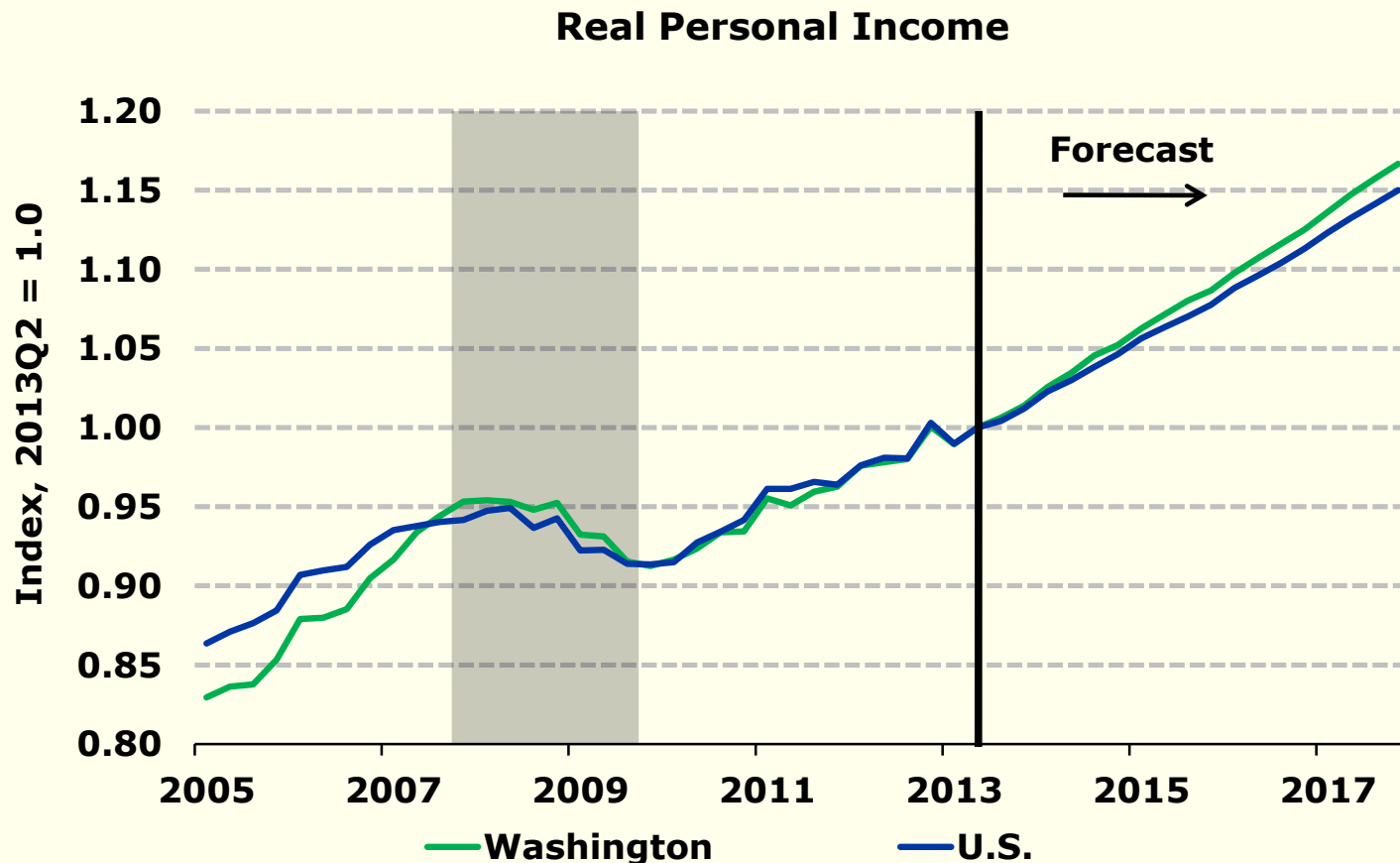


Source: BEA, ERFC November 2013 Forecast; historical data through 2012

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...and state personal income will recover slightly faster than the U.S.

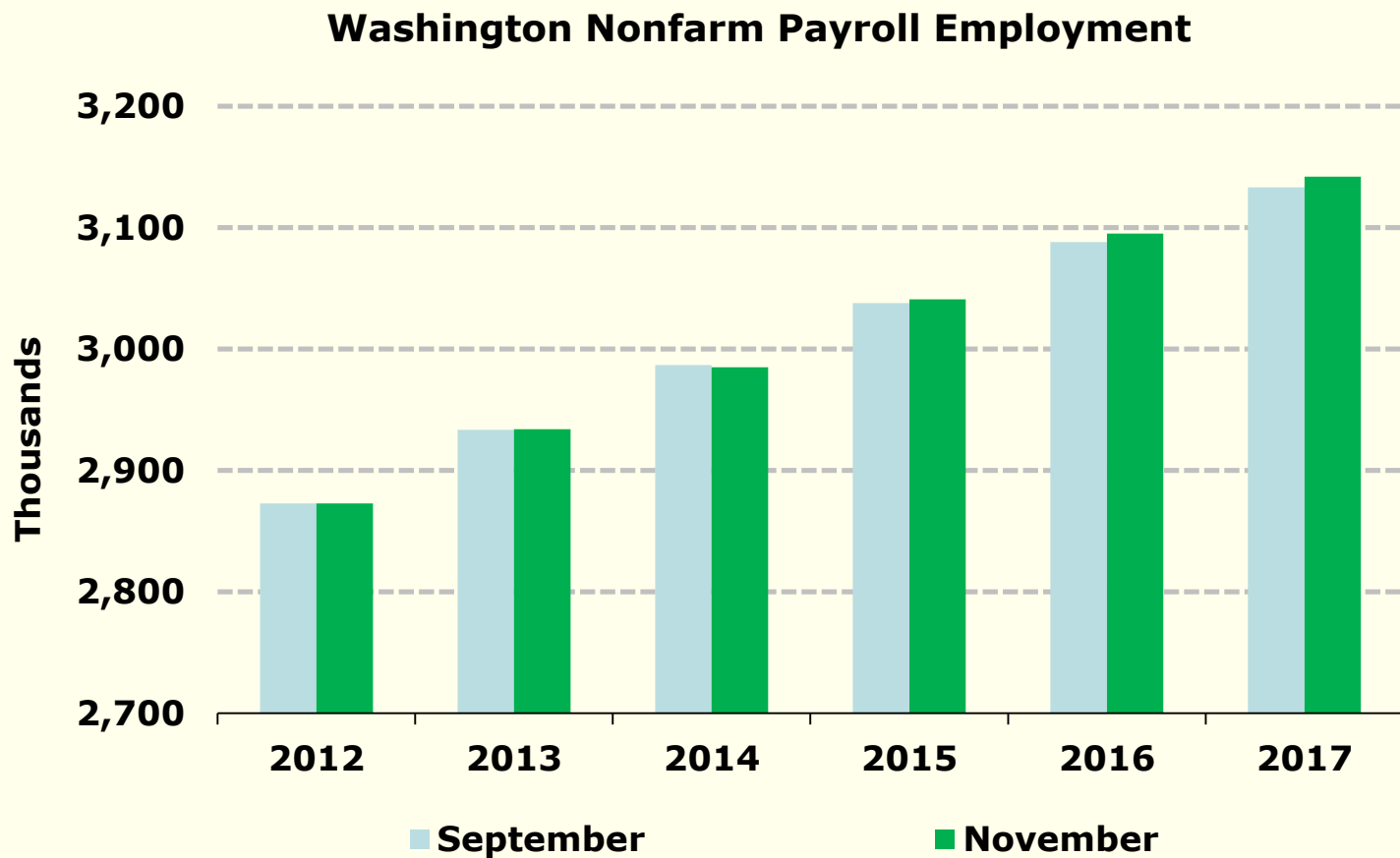


Source: ERFC November 2013 forecast; historical data through 2013Q2

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Washington payroll employment forecast is slightly higher after 2014



Source: WA ESD, ERFC November 2013 forecast; historical data through 2012

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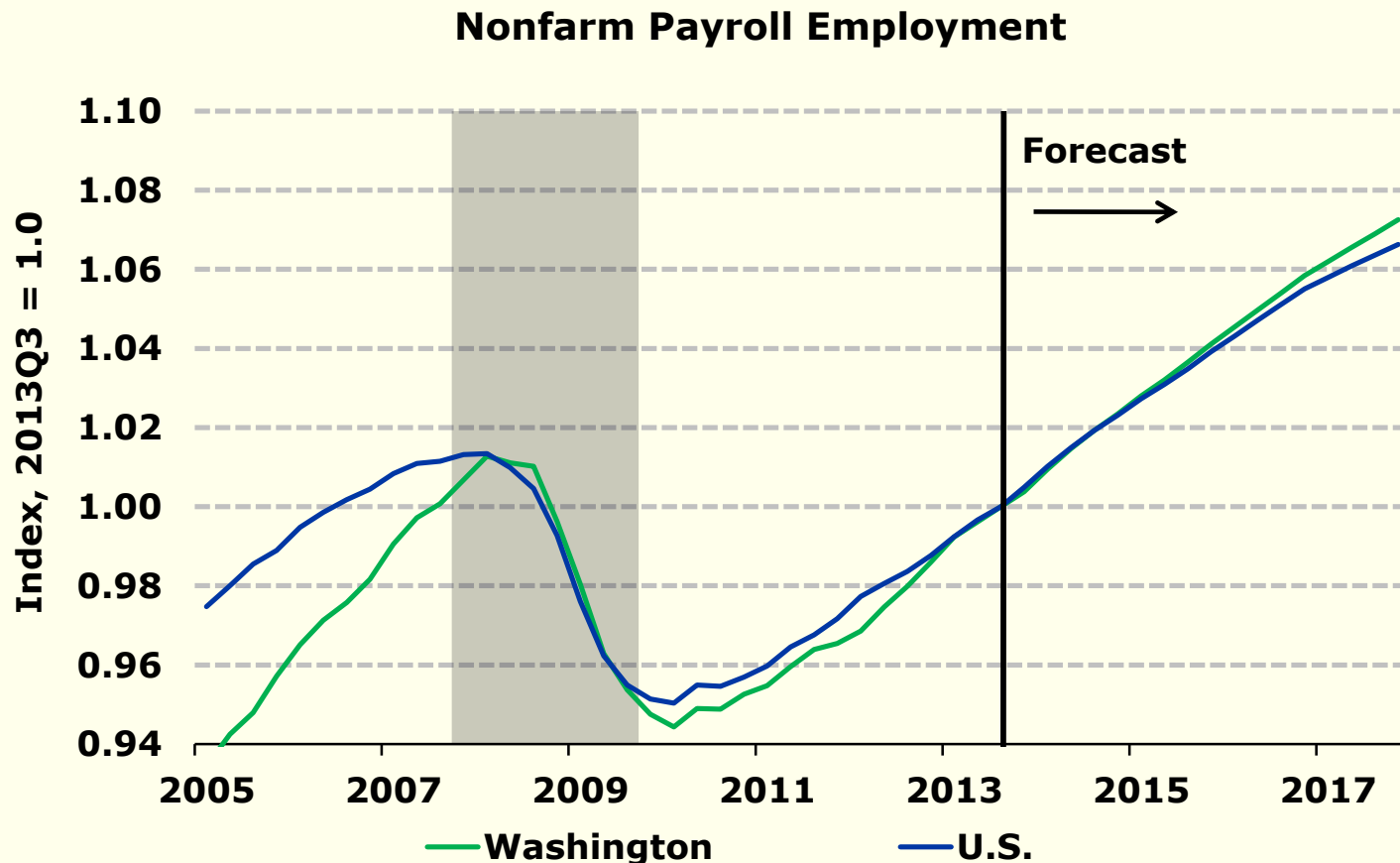


Washington employment will recover slightly faster than the U.S.

Date of
regaining
peak:

WA:
2014Q3

U.S.:
2014Q3



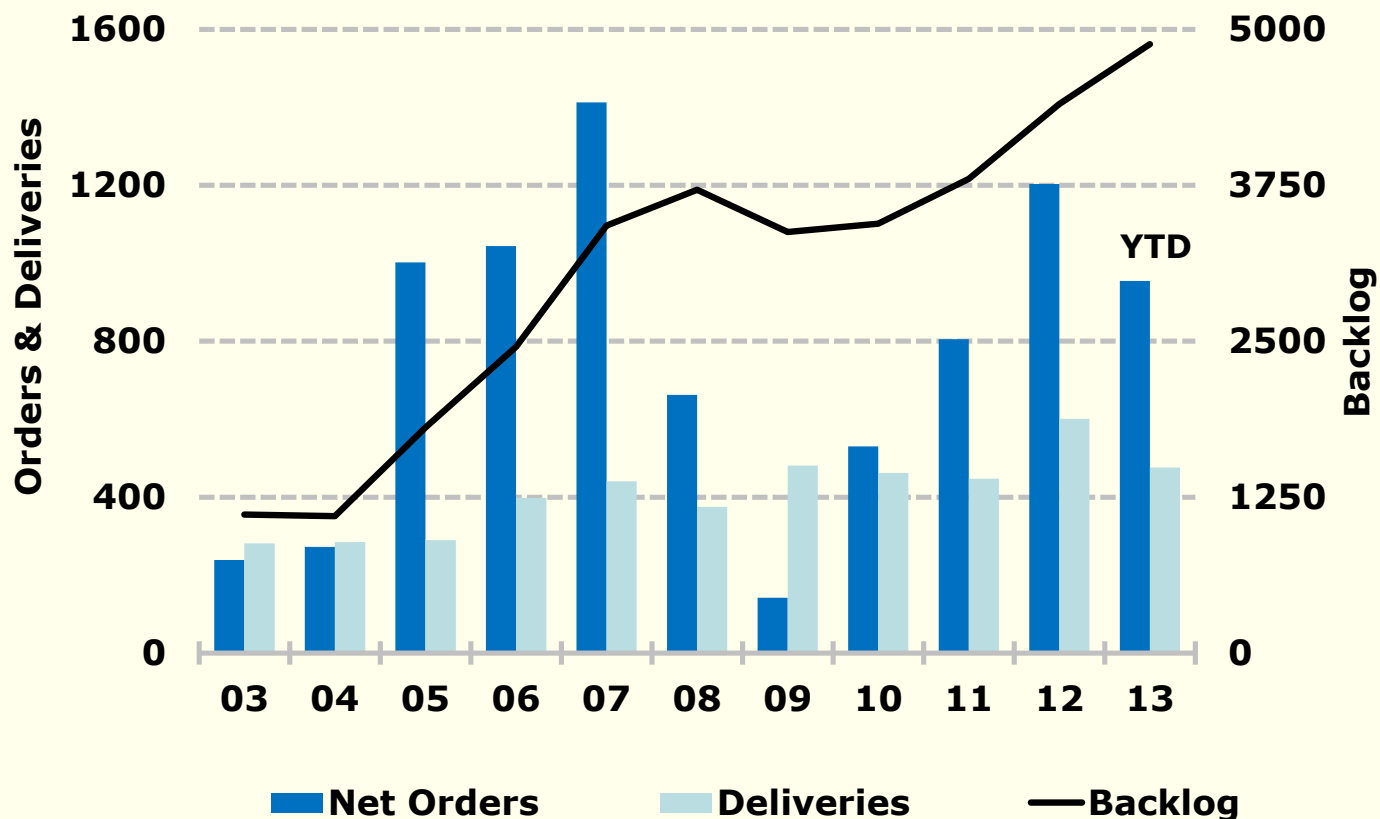
Source: ERFC November 2013 forecast; historical data through 2013Q3

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Boeing has over 7 years of commercial orders on its books

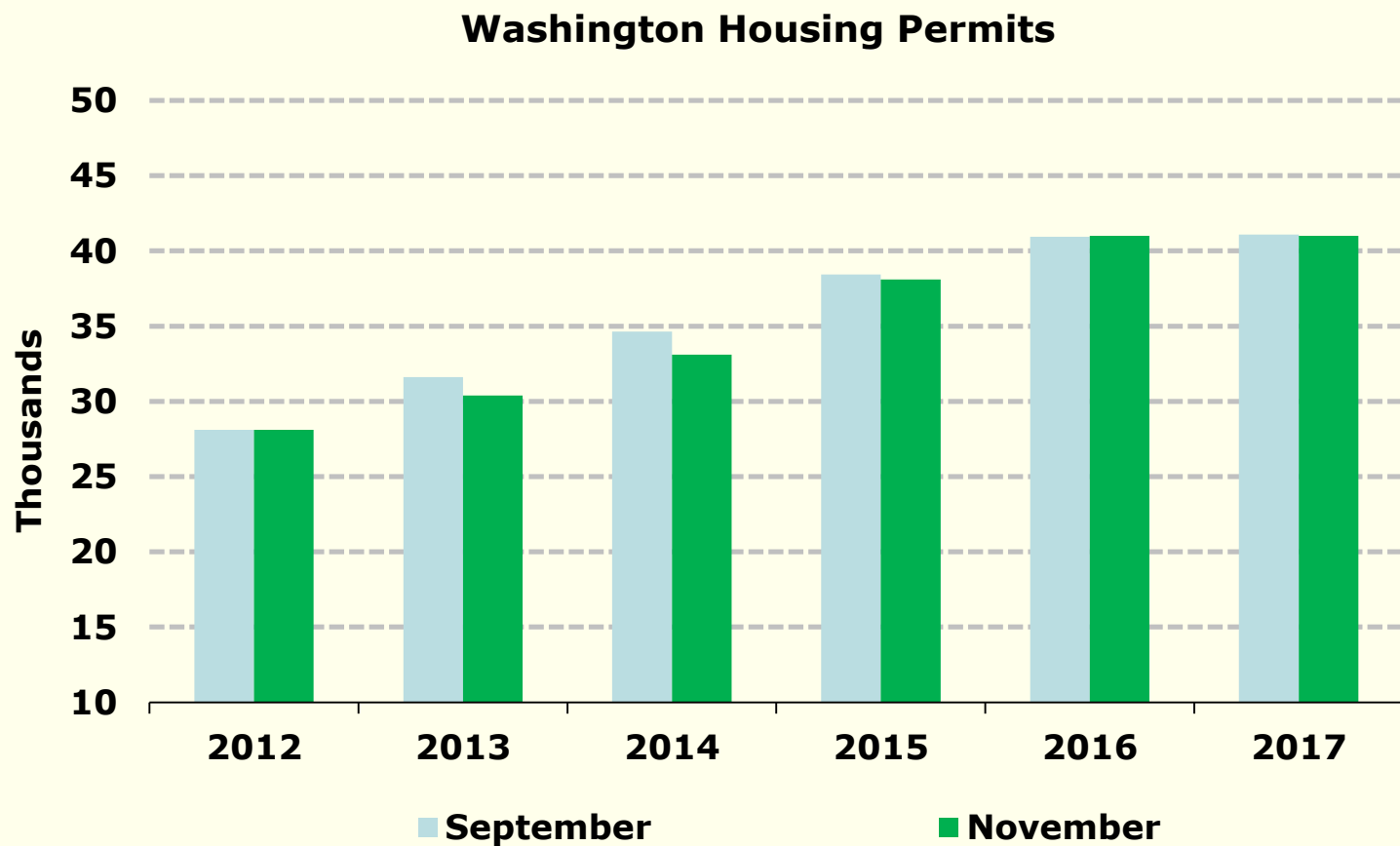
Excludes the military's new refueling tanker



Source: Boeing, data through October 2013



Washington housing permits forecast is lower in the near term

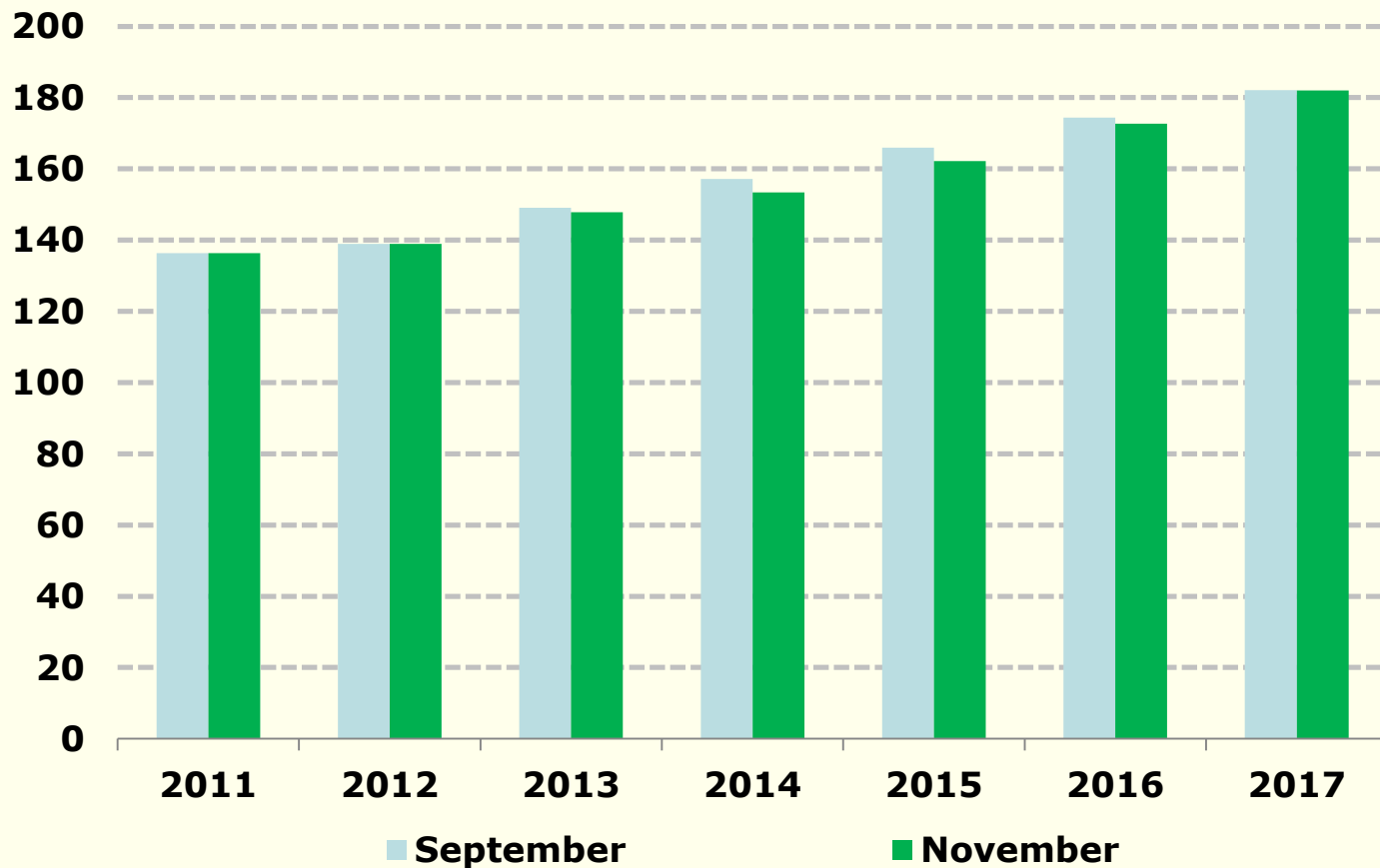


Source: U.S. Census, ERFC November 2013 forecast; historical data through 2012

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Construction employment forecast is also slightly lower in the near term



Source: WA ESD, ERFC November 2013 forecast; historical data through 2012

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Forecasted Revenue Act growth relative to income is above the long-term average...

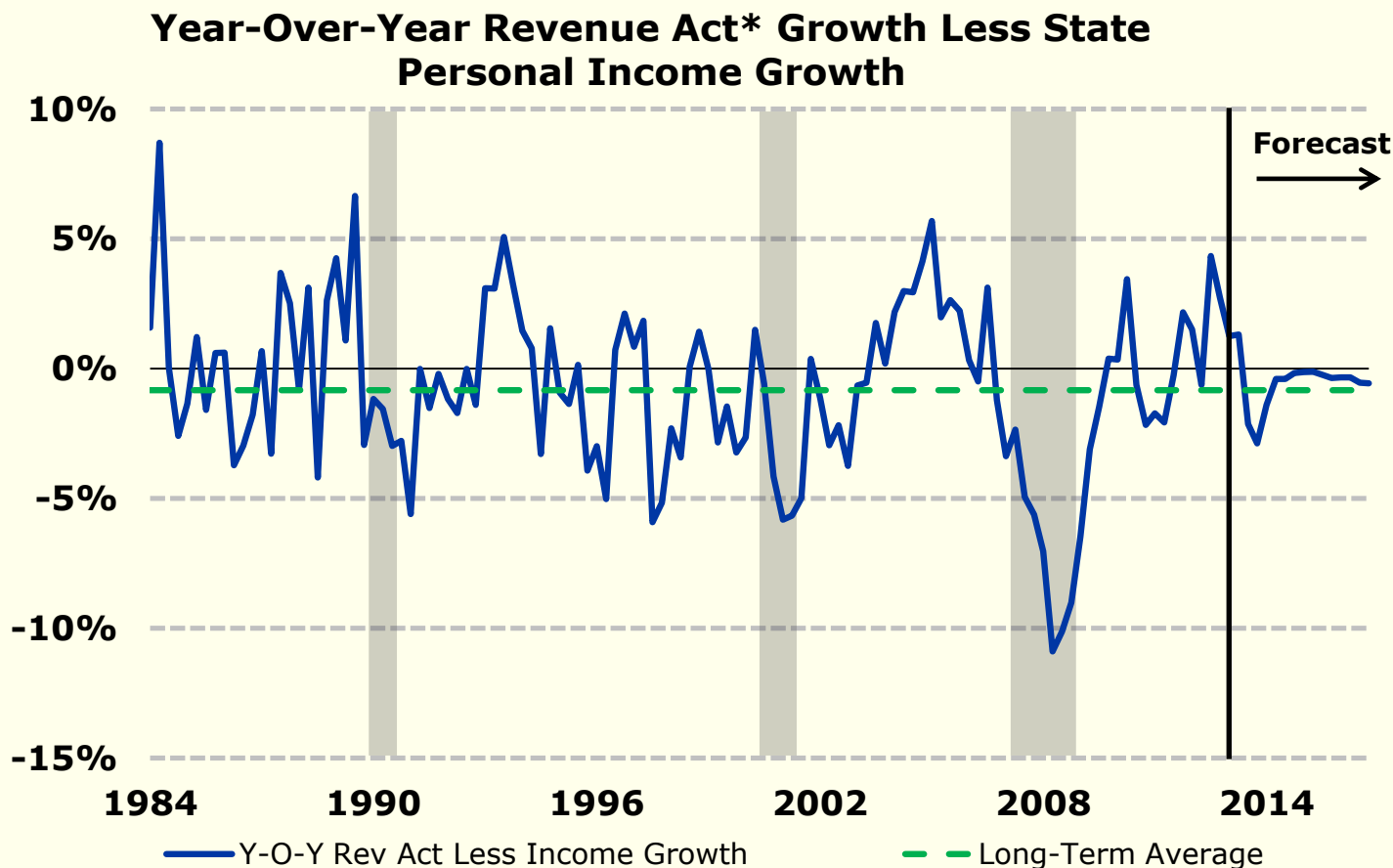
Revenue Act growth compared to income growth is forecasted to be slightly above the long-term average due to construction activity

The dip in the chart in mid-2013 through mid-2014 reflects the expiration of the B&O service tax surcharge

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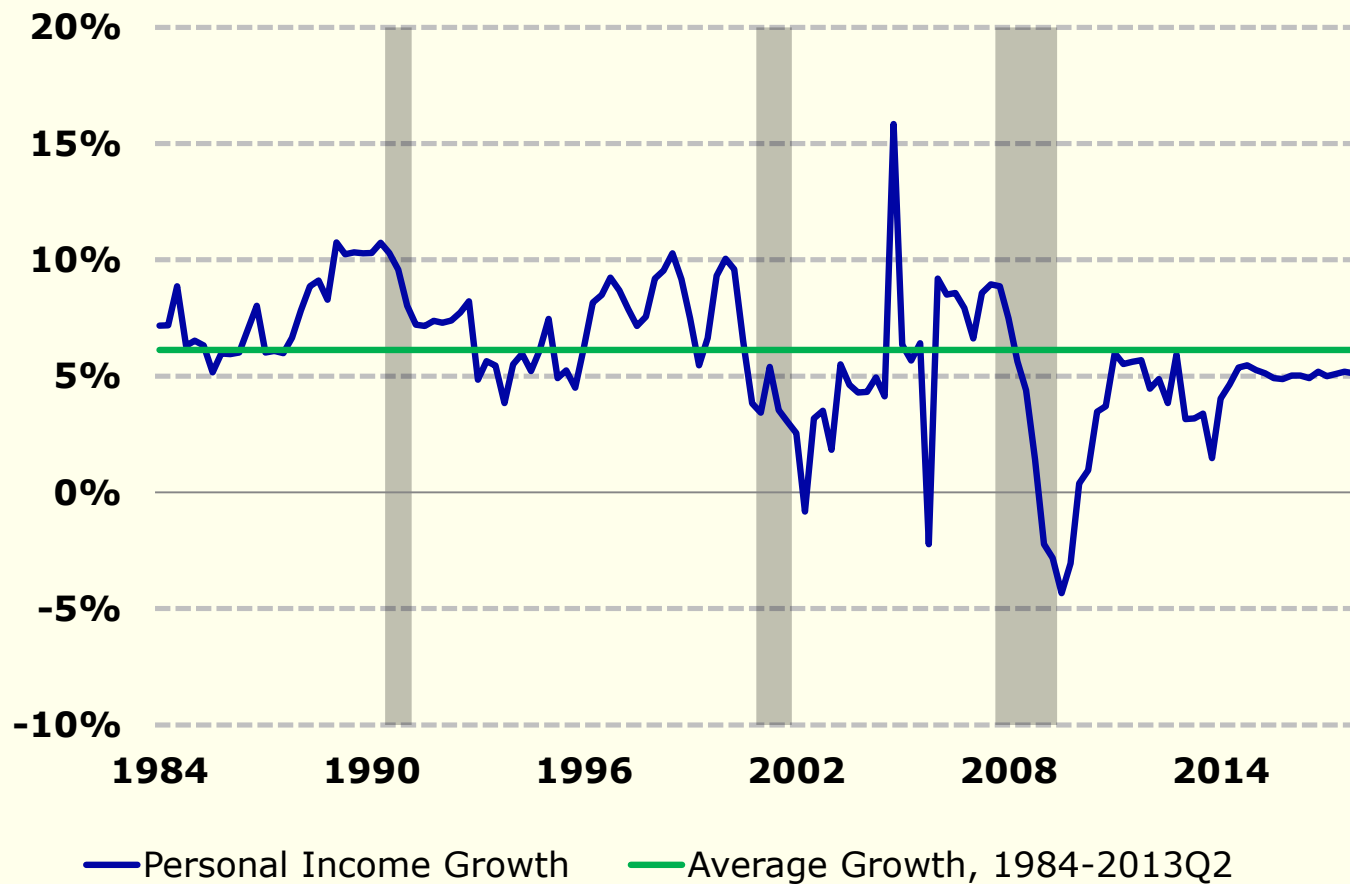
*Adjusted for large one-time payments and refunds and payments under the amnesty program

Source: ERFC; Quarterly revenue data through Q3 2013, November 2013 income estimates

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...but personal income is growing slowly





Rev Act collections still above pre-recession peak despite surtax sunset

Seasonally adjusted collections increased slightly in the October 11th - November 10th collection period (September taxable activity)

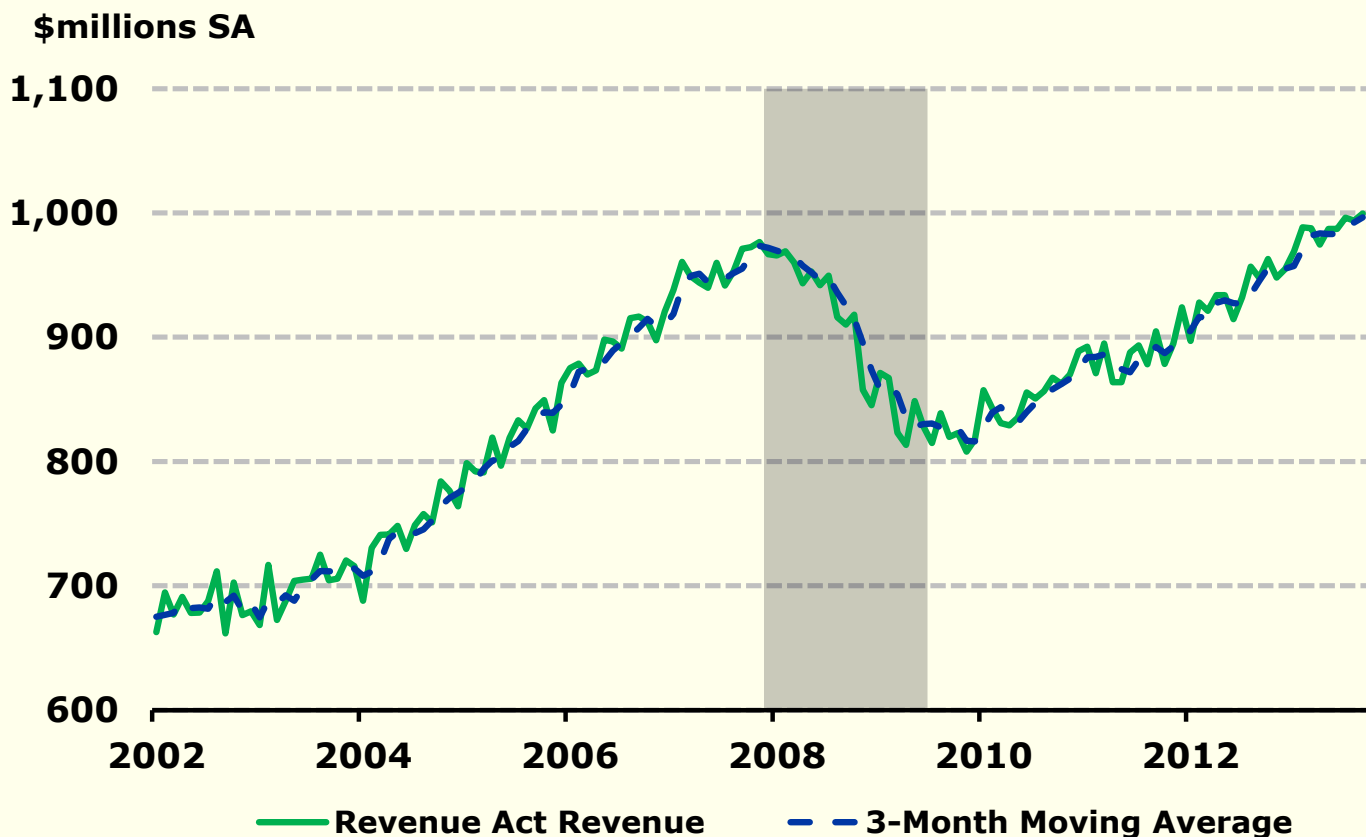
Collections in the previous period decreased due to the surtax sunset

The surtax brought in \$20-\$26 million per month

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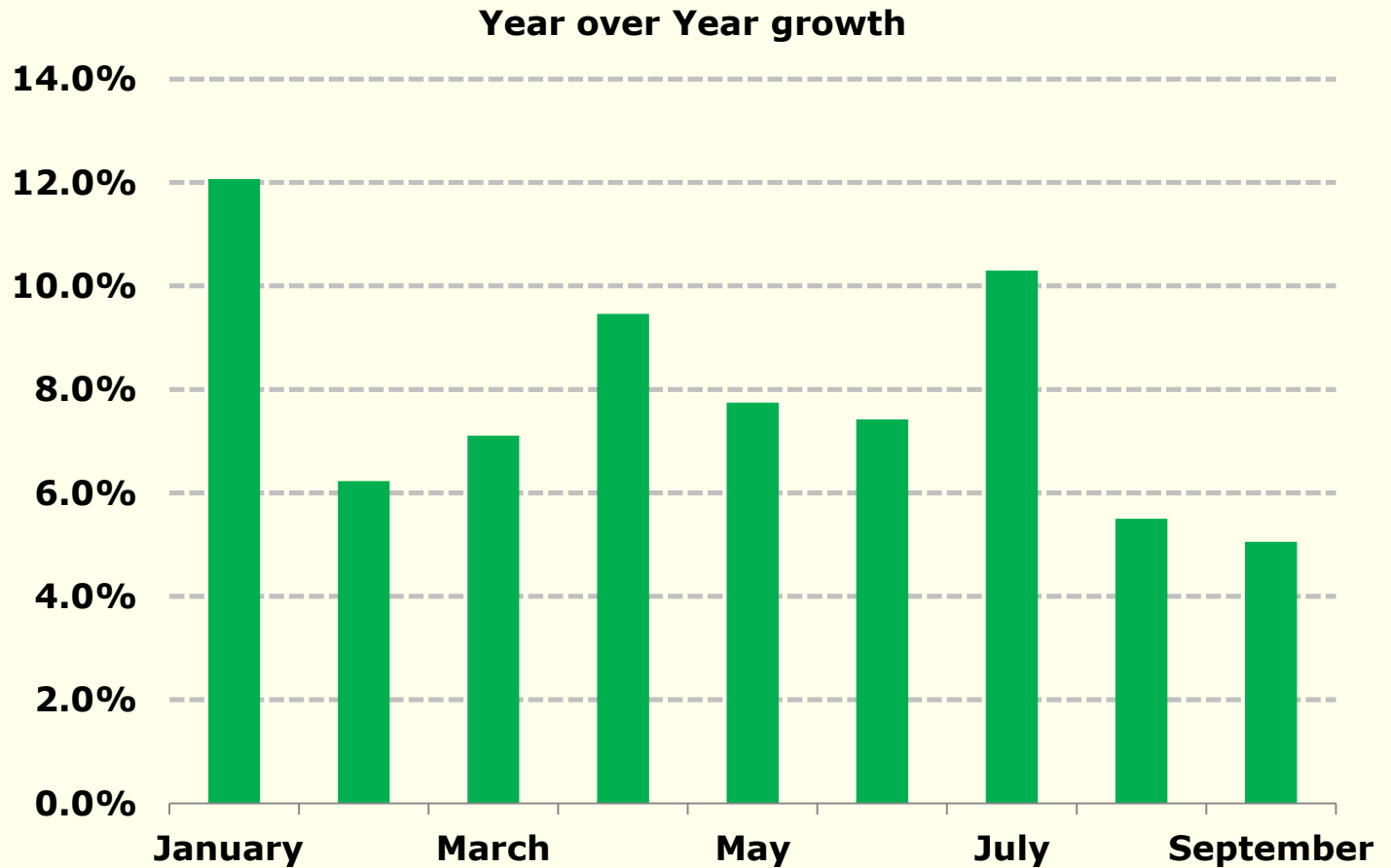
* Adjusted for large one-time transactions, amnesty payments and reporting frequency change, current definition of Revenue Act

Source: DOR and ERFC; monthly data through estimated September 2013 activity

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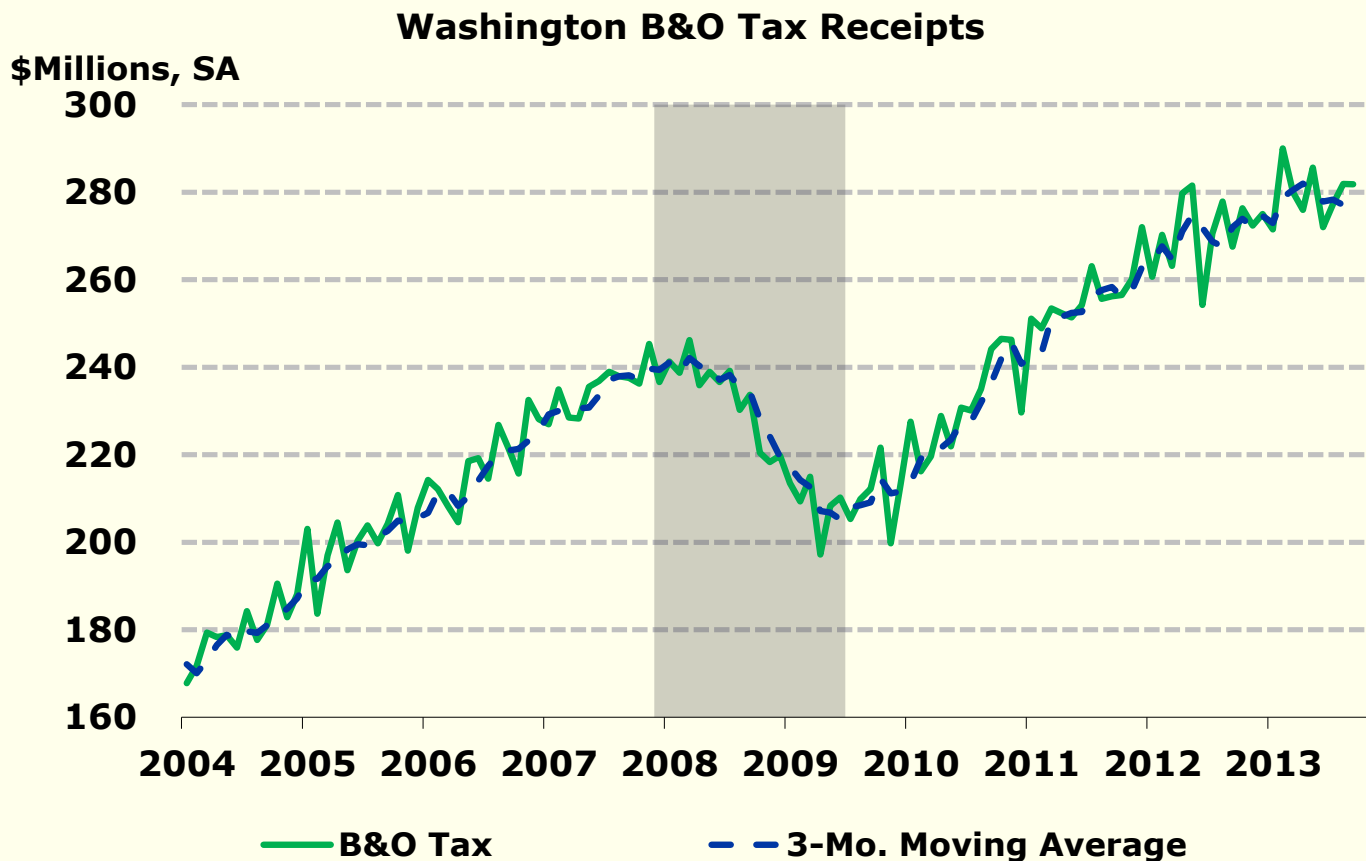
Sales tax growth has slowed in last two months





September B&O collections show effects of service surcharge removal

The 0.3% B&O service tax surcharge, effective May 1, 2010 – June 30, 2013, generated \$20-\$25 million in taxes per month over the last fiscal year



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Source: ERFC; Monthly data through September 2013 preliminary activity
Adjusted for taxpayer frequency shift, amnesty payments, and recent large refunds

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Underlying REET trend positive with occasional spikes in commercial sales

While the residential market has strengthened, investor interest in commercial property has brought several months of elevated large commercial sales

September sales of property worth \$10 million or more totaled \$222 million while October's sales totaled \$1 billion

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Seasonally Adjusted Taxable Real Estate Excise Activity

\$Billions

10

9

8

7

6

5

4

3

2

1

0

1996

1998

2000

2002

2004

2006

2008

2010

2012

Source: ERFC; Monthly data through October 2013 preliminary

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Total changes: General Fund State, Education Legacy Trust Account, and WA Opportunity Pathways Account

2011-13 Biennium

Final Totals

\$Millions	<u>Non-econ Change</u>	<u>Nov. Forecast Change</u>	<u>Nov. Forecast</u>	<u>Total Change</u> *	<u>Total Resource Change</u> *
General Fund-State	(\$22)	\$9	\$30,657	(\$13)	\$9
Education Legacy Trust	(\$0)	\$0	\$215	(\$0)	(\$0)
WA Opportunity Pathways Account	\$0	(\$0)	\$244	(\$0)	(\$0)
Total	(\$22)	\$9	\$31,116	(\$13)	\$9

* Detail may not add to total due to rounding



Total changes: General Fund State, Education Legacy Trust Account, and WA Opportunity Pathways Account

**2013-15
Biennium**

\$Millions	<u>Non-econ Change</u>	<u>Nov. Forecast Change</u>	<u>Nov. Forecast</u>	<u>Total Change</u> *	<u>Total Resource Change</u> *
General Fund-State	(\$30)	\$6	\$32,973	(\$25)	\$16
Education Legacy Trust	\$0	\$13	\$377	\$13	\$13
WA Opportunity Pathways Account	\$0	(\$8)	\$229	(\$8)	(\$8)
Total	(\$30)	\$11	\$33,589	(\$19)	\$21

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* Detail may not add to total due to rounding

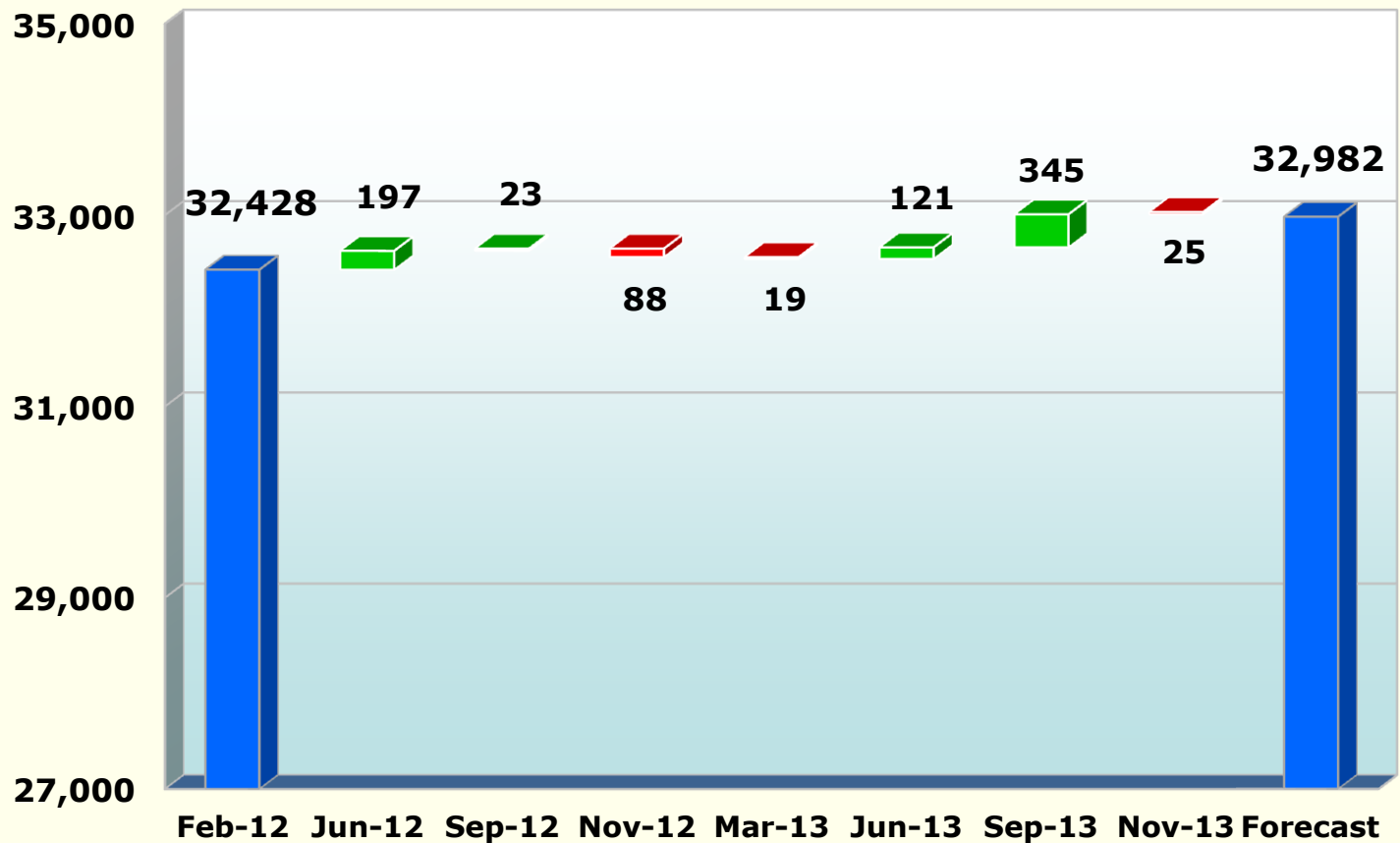
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GF-S forecast revisions to the 2013-15 biennium

**GF-S
New
Definition**

\$Millions



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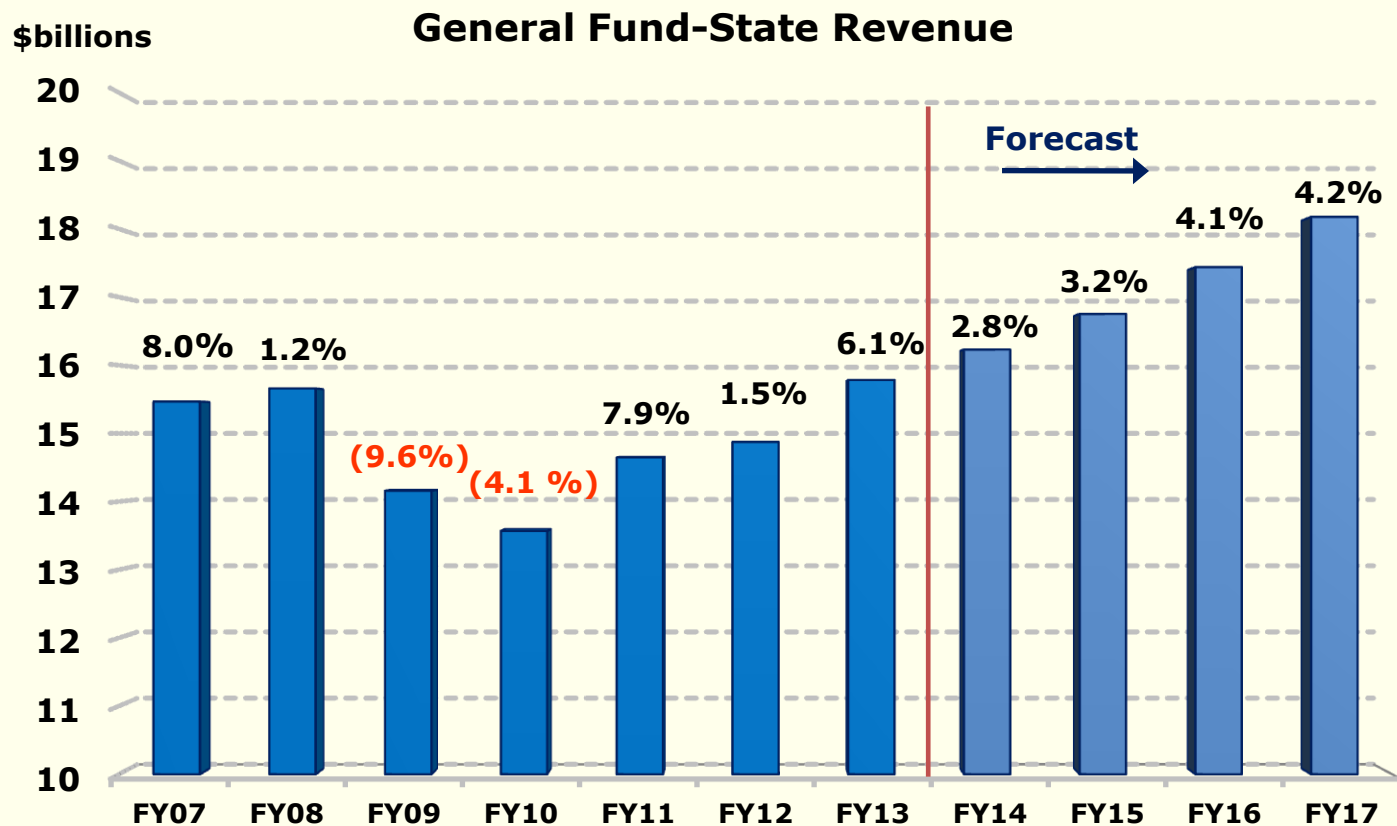
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Source: ERFC February 2012 - November 2013 forecasts

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General Fund-State* forecast by fiscal year



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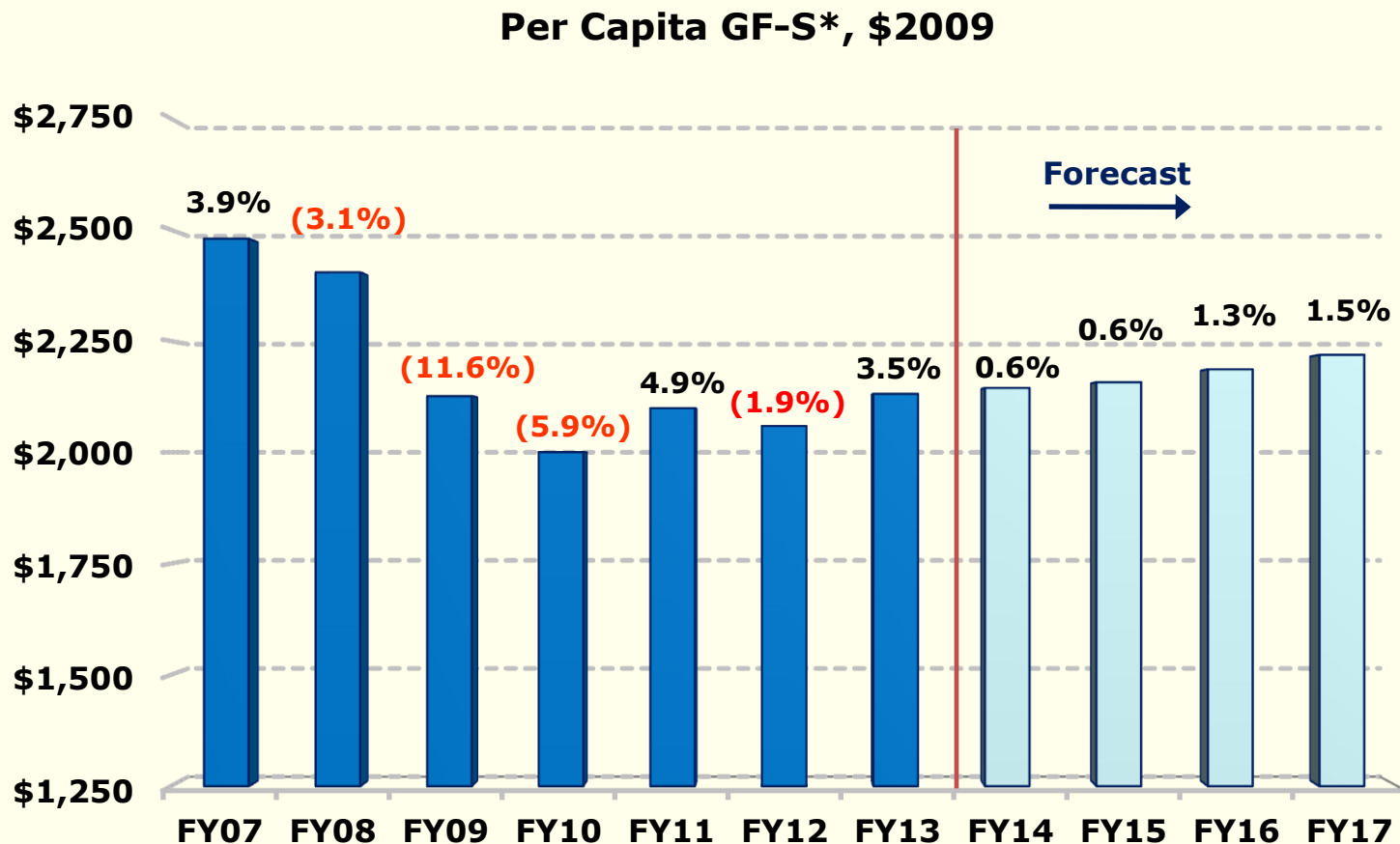
*General Fund-State & Related Funds for FY 07-09, General Fund-State new definition for FY 10-17
Source: ERFC forecast, November 2013

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Real Per Capita General Fund*-State Revenue

* General Fund & Related Funds for FY 2007-2009, General Fund – new definition, for FY 2010-2017



Source: ERFC forecast, November 2013

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2013-15 Biennium alternative forecasts – cash basis

\$Millions	2013-15 Biennium	Difference From the baseline
November 2013 Baseline (55%)	\$32,982	
<u>November 2013 Alternative Forecasts</u>		
Optimistic (15%)	\$35,058	\$2,075
Pessimistic (30%)	\$30,961	(\$2,021)
Probability Weighted Average	\$32,687	(\$295)
GCEA*	\$33,171	\$189

*Based on the Governor's Council of Economic Advisors' assumptions

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Conclusion

- Our November forecast update shows relatively small changes in our economic and revenue forecasts
- We continue to forecast slow economic and job growth for both the national and state economies
- The level of uncertainty in the baseline remains extremely high, and downside risks outweigh upside risks
- GF-S revenues grew 8.6% between the 2009-11 and 2011-13 biennium and are expected to grow 7.6% between the 2011-13 and 2013-15 biennium



Questions



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